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CAREER & TECHNOLOGY STUDIES

Introduction to
Financial Management
FIN 101



**Distance
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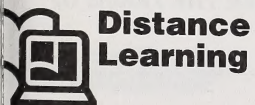


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Introduction to Financial Management FIN 101





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Financial Management 101
Introduction to Financial Management
Student Module Booklet
Alberta Distance Learning Centre
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Welcome!

Welcome to FIN 101.

We hope you'll enjoy your study of
Introduction to Financial Management.

Career and Technology Strands were designed to stand alone, or be integrated with other strands for a customized course of studies to meet student needs. Through each strand, CTS Basic Competencies will be identified as follows:

Careers: identify appropriate career linkages within the strand being studied

Communication: effectively present concisely written, visual, and oral communications

Ethics: identify and demonstrate appropriate ethical behaviour

Teamwork: participate as an effective member of a team by working cooperatively

Technology: effectively use technology when required

These competencies build daily living skills and support a smooth transition to the workplace.

The five icons that appear below indicate to both students and facilitators that a basic competency has been identified in the activity offered to the students.



Financial Management Visual Cues

In addition to the Career and Technology Basic Competencies icons described earlier, you may find visual cues throughout the Student Module Booklet to assist you in your studies. Read the following explanations to discover what each icon prompts you to do.



Use your calculator.



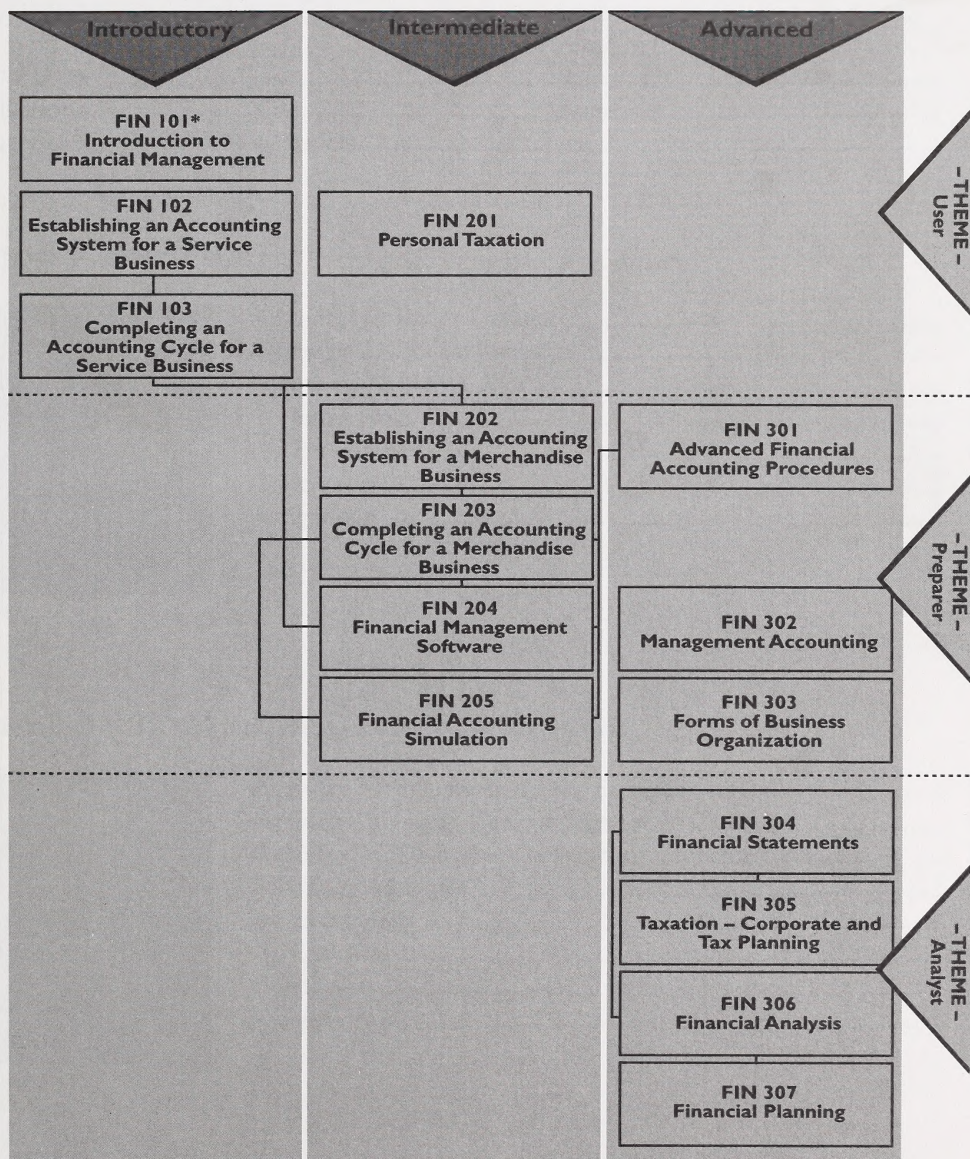
This icon indicates a key point in financial management.



View a videocassette.


Financial Management

O • V • E • R • V • I • E • W



* prerequisite to all other modules

Some of these modules may not yet be in a distance learning format.



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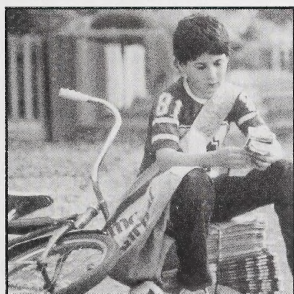
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WESTFILE INC.

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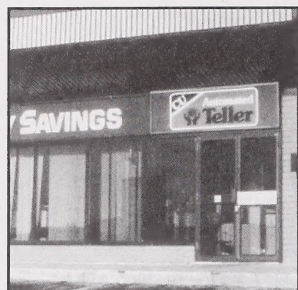
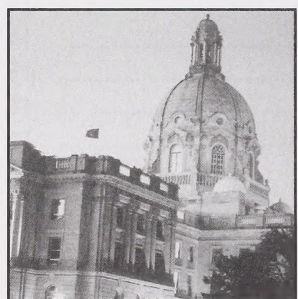


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Introduction to Financial Management



O • V • E • R • V • I • E • W

Gio and Christina both work part-time at Villager Pizzeria. One day, Christina said to Gio, “Hey, are you coming on the company ski trip this weekend?”

“Sheesh, Chris! How can you afford to go on that trip? Where do you get the cash? We both earn the same wage and work the same number of hours each week. I don’t know how you do it!”

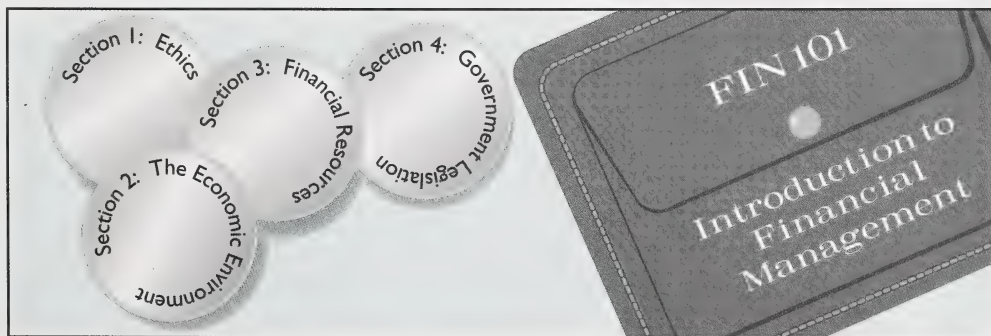
“Well, for one thing, Gio, I always stick to my financial plan,” replied Christina. “I invest a bit of each of my weekly cheques and that money keeps growing. I also keep my eye open for sales—you’ve got to be alert to save money. And you need to have a plan.”

Gio rolled his eyes upward. “A plan? That sounds boring. I suppose you learned all that in your financial management classes in school.”

“I sure did,” replied Christina. “As far as boring, I’ll let you know how the ski weekend goes!”

Can you identify with Gio? Do you constantly wonder where your finances go? Do you find yourself scrambling when unexpected expenses leave you short? Or are you more like Christina, with a plan in mind for your money and your future?

In this module you will be introduced to basic financial rules concerning ethical behavior. You will also explore the economic environment, examine the basics of acquiring and using financial resources, and look at government legislation which affects financial management.



Evaluation

The document you are presently reading is called a Student Module Booklet. It will show you, step by step, what to do and how to do it.

This module, Introduction to Financial Management, is a one-module, one-credit course, and is a prerequisite to all other modules in this Financial Management strand. Each module comprises several sections. Within each section, your work is grouped into activities. Within the activities, there are readings, explanations, and questions for you to work through. You will correct these activities yourself using the Appendix at the end of this module. These suggested answers will provide you with immediate feedback on your progress.

Your grading in this module is based upon the assignments that you submit for evaluation and upon the final test. You must complete all assignments. In this module you are expected to complete four section assignments. There is one assignment after each section. The mark distribution is as follows:

Section 1	25 marks
Section 2	35 marks
Section 3	35 marks
Section 4	<u>25 marks</u>
Total	120 marks

Strategies for Completing a Module

Organize your materials and work area before you begin: calculator, workbook, pens, and pencils. Make sure you have a quiet area in which to work, away from distractions.

Work slowly and carefully and read all instructions. Do not skip from section to section. Set a limit for yourself: “I will finish the assignments this morning,” or, “I will work until 10:00 without a break.” When you have finished, set your work aside, and then review it again before submitting it for marking. Remember, accuracy is crucial when you are dealing with finances. Careful work habits will increase your chances for success in Financial Management.

Good luck!



Ethics



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ANDY and Karen, two new employees at the Finco Trust Company, are having a quick lunch in the company cafeteria. When the lunch is over, Karen notes that they have been undercharged by \$6 for the lunch.

“What a break, Andy! That’s \$3 less for each of us to pay!” whispered Karen.

“Wait a minute, Karen,” Andy said quietly. “That server is also an employee of Finco. If we cheat the server, we are cheating our new company. I’ll pay the \$6 that we owe. Now let’s get back to work.”

In this section you will examine sample codes of ethics and discover how a code of ethics can guide and influence employees toward ethical behaviour. Using this knowledge, you will be able to construct a code of ethics for an organization to which you belong.

SECTION 1

ACTIVITY I

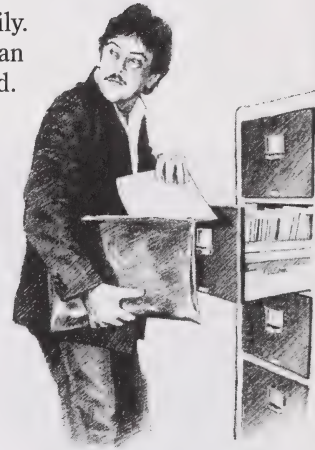
Ethics Defined

What Are Ethics?

The situation described on the previous page occurs daily. Why did Andy view the error with the bill differently than Karen? Perhaps it was because of the way he was raised. He may have seen his parents correct an error that was in their favour. Perhaps Andy had once been a server or a clerk in business and viewed the situation from the point of view of the server.

Andy's past experiences and upbringing helped develop his outlook, beliefs, morals, and values. These experiences helped to form Andy's personal code of **ethics**.

What about employee ethics?



▼
ethics: a set of
moral principles
or values



Ethics of the Employee

There are certain duties and tasks that you are required to fulfil as a result of your employment contract. These are the valued skills and knowledge that you bring to the organization. What about your work attitude and ethics? What follows is a comparison between work responsibilities (knowledge and skills) and work ethics (attitude).



RESPONSIBILITIES VS. ETHICS

Work Responsibilities

Work Ethics

Come to work on time.

When at work, work hard for the entire time.

Complete the work for which you are hired.

Speak well of the company to others (friends, co-workers, other companies).

Assist other workers when required.

Provide support and encouragement for fellow employees.

Dress in a professional manner.

Uses company materials efficiently.

Use appropriate language in the business setting.

1. The amount of work done each day can be measured by the number of sales a sales clerk makes, the amount of wiring that an electrician completes in a house, and so on. How might an employer measure an employee's work ethic? Give an example of a work ethic that could be measured fairly by an employer.
2. Look at the items listed in the Work Ethics column of the previous chart. What does the phrase "Provide support and encouragement for fellow employees" mean?

Compare your responses with those in the Appendix, Section 1: Activity 1.

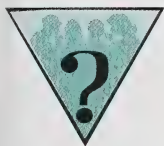
Take the Ethics Test!

3. Answer the following questions on your own or with a group.

- a. You are the treasurer for your hockey club. You have collected funds for a tournament and the money is at home in an envelope. You need to borrow \$20 from the envelope to get groceries. You plan on replacing the money as soon as you can get to the bank. Is this okay?
- b. You are in the supply room at work and notice a fellow employee placing a box of pens and a package of paper in his briefcase. "I do a lot of work at home," he states. Is this okay?
- c. You and your team have done a great job on a company project. As a reward, one of the suppliers drops off a dozen golf balls and a complimentary pass to a local golf course for you. Is this okay?
- d. You are out for lunch and overhear a fellow employee stating that he is planning on leaving the company, but he wants to wait for his Christmas bonus. Do you tell anyone?
- e. You know your employer is telling her partners that she is working, but you know that she is at the golf course. She has asked you not to tell. What do you do when a partner in the firm asks you where your boss is?



Compare your responses with those in the Appendix, Section 1: Activity 1.



Ethics of the Company



code of ethics:

a set of standards, rules, or values that outlines an organization's commitment to equitable business practices



You have looked at ethics of an employee. Can a company have ethics? Look at the following **code of ethics** for Finco Trust Company.

Finco Trust Company Code of Ethics

Our company is committed to providing professional, courteous service to all our banking clients and the community that supports us. With this in mind, the following forms our Code of Ethics.

Our clients may expect to receive:

- service in a professional and courteous manner at all times
- good value for the service provided in terms of fair and competitive pricing
- a clean, welcoming environment in all areas

Our staff, which includes the managers, support staff, and all contract employees, will direct our efforts to achieving the following goals:

- the growth and development of Finco Trust Company
- the satisfaction of our clients
- a positive contribution to the community

With these goals in mind, please read the following summary of the Code of Ethics for Employees of Finco Trust Company. A full explanation appears in the Employee Handbook.

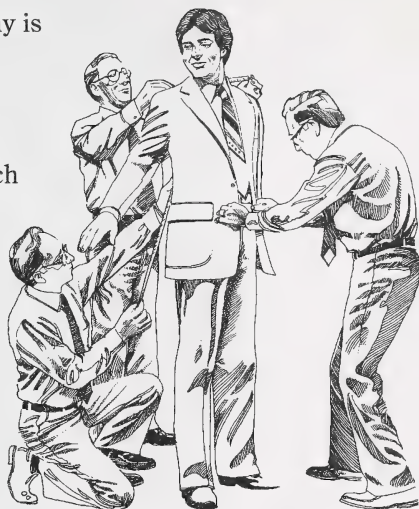
- All Finco offices and public areas, including the cafeteria, are designated as smoke free.
- Employees are expected to dress in a professional manner at all times, which includes hair styles.
- The employees will ensure that all customers are greeted with “Good morning, Mr. ,” whether by telephone or in person.
- Should a disagreement occur between an employee and a customer, the employee should avoid any confrontation, particularly in view of the public.
- All materials that are suitable for recycling should be placed in the recycling bins provided.

Note that the Finco Trust Company code of ethics includes official company policy forbidding smoking in the work place. In some cases, a code of ethics may warn employees against unethical, immoral, and illegal behaviour. In short, a code of ethics should communicate the values that the company considers important and fundamental to its basic philosophy of business.

Review the code of ethics for Finco Trust Company, and then answer the following questions.

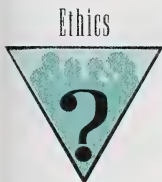
4. The code of ethics for Finco Trust Company is written in a positive tone. Compare the following statements:

- Employees are expected to dress in a professional manner at all times, which includes hair styles.
- Blue jeans, runners, and t-shirts are not professional dress, and any employees dressed for work in the foregoing attire will be suspended.



If you were a new employee of the company, what impression or feeling would you receive from reading the first statement? – compared to the second statement? Why would a company be reluctant to include the second statement in a code of ethics?

5. Finco Trust Company's code of ethics includes a statement concerning recycling of materials. Why would this statement be significant in a modern code of ethics? Do you feel it would have appeared in a company's code of ethics in the last century?



You will have now developed an awareness of appropriate ethical conduct in business and examined a code of ethics. The next activity will explore ethical issues.

Compare your responses with those in the Appendix, Section I: Activity I.

ACTIVITY 2

Ethical Issues

What About Hair?



JIM WHITMER PHOTOGRAPHY

A code of ethics for a company might include a clause such as the following:

The employee should dress in a manner conducive to the work environment, including clothing, accessories, cosmetics, fragrances, and hair style.



1. In the following chart, indicate whether you feel it is a company's right to determine how an employee wears his or her hair.

HAIR		Yes	No
Length of hair	too short, too long, bangs in the eyes, looks unappealing to customers		
Colour of hair	inappropriate colour for work environment		
Hair style	inappropriate style for work, hanging in face, unappealing to customers		
Hygiene	hair appears oily or unclean, visible dandruff		

2. Would there be different rules in the company for hairstyles worn by male employees? Why or why not?
3. Use the following chart to outline possible differences between the codes of ethics for seven different companies with respect to hair. The first one is done for you.

HAIR WHERE?	
Companies	Comments
Hair salon	Employees in hair salons are usually allowed to try out new styles and colours. It is a more liberal environment ("wilder").
Fast food restaurant	
Upscale, expensive restaurant	
Art gallery	
Mortuary	
Record store	
Government post office	

Compare your responses with those in the Appendix, Section 1: Activity 2.

The issue of hair may seem like a minor one, and it truly is, but employees have been dismissed from their positions because someone did not care for their hair style. The following scenario looks at more serious ethical issues in detail, and focuses on ethical issues with a financial management emphasis.

The Promotion



Sandy has applied for a position as an administrative assistant in the large corporation where she has worked for eight years. Sandy has excellent work records and habits, and is highly recommended for the position. She is thrilled when she is invited to attend an interview.

Sandy is pleased with her performance in the interview, and the next day she receives the promotion. Sandy will be on probation for three months in this new position. Following a successful probationary period, the position will become Sandy's on a permanent basis.

Two months into the probationary period, Sandy discovers that she is pregnant. Sandy knows that the Individual's Rights Protection Act makes it illegal to discriminate against a woman because she is pregnant, but Sandy now faces a dilemma. If she passes her probationary period and receives the raise, and then tells her employer that she will be leaving for a maternity leave, hard feelings may develop. However, if she tells her employer now, Sandy runs the risk of not receiving the promotion.



4. Sandy must face an ethical decision. She is well within her legal rights to keep the information about her pregnancy confidential. Is she ethically correct?

Compare your responses with those in the Appendix, Section 1: Activity 2.

Financial Management Ethical Issues

What are ethical issues that relate to the financial management of an organization, both from the employee point of view and the employer point of view?



5. Read the following statements which give both the employee's and employer's points of view. For each issue, decide who is correct. Is there a right and wrong point of view for each issue?

a.

ETHICS EMPLOYEE VS. EMPLOYER	
Employee Point of View	Employer Point of View
I take company supplies home from work because I do work at home on the evenings and weekends.	Employees who take supplies home from work could also be using them for their personal use. Are there other people in the household who are using the supplies? How can our company control this usage?

b.

Employee Point of View	Employer Point of View
Sure, I make personal phone calls on company time. There is no other time I can phone and make a dental appointment because my lunch hour is the same as the dentist's. Besides, I often work in the evenings on company business and I don't charge the company.	We provide our employees with breaks to use the washroom facilities, make phone calls, and have a refreshment. Is this not enough time to take care of personal business?

c.

Employee Point of View	Employer Point of View
Sure, I claim personal expenses as business expenses: lunches, gasoline, and car washes. The way I see it, the company then claims these as business expenses when they report their net income. So they pay less tax and we all benefit.	We feel we pay our employees a reasonable salary. If they feel the need to "pad" their expense accounts, then we may remove the expense accounts altogether, and increase their salary. Then they will have to pay the additional income tax on the expenses as part of their salary. We feel we are giving the employees a break, and they are taking unfair advantage of it.

d.

Employee Point of View	Employer Point of View
I have copies of all our company software programs on my home computer in case I want to work at home some night. What's wrong with that?	All employees who want copies of our software programs can ask for the programs and we will provide them, if they are truly using these programs at home for company business. We could be in trouble under the Copyright Act if it was discovered that our employees had "pirated" copies of our programs at their homes.

e.

Employee Point of View	Employer Point of View
We got two days per month as sick leave. I am not usually sick, but I take these two days off anyway. I feel that these are "mental health" breaks and I am entitled to these days each month. If I don't take them, no one benefits. Besides, no one does my work while I am out of the office—it is waiting for me when I return.	Employees who abuse the health care benefits make the entire health care plan more expensive for everyone else. The attitude also slows down productivity in the office—when they are away, other people are delayed in getting their work done.

Compare your responses with those in the Appendix, Section 1: Activity 2.

Codes of Ethics for Professional Accounting Organizations

The main professional accounting organizations have very lengthy codes of ethics which deal with many aspects of business.

▼
CA: *Chartered Accountant, an accounting designation*

Following is an excerpt from the code of ethics for the Institute of Chartered Accountants of Alberta. Chartered Accountants are referred to as **CA's**.

Rule 207 Informing Clients and Associates of Possible Conflicts of Interest

A member engaged in the practice of public accounting or the public practice of a function not inconsistent with public accounting shall inform his clients or associates in such practice of any business connections, any affiliations, and any interests of which they might reasonably expect to be informed but this does not necessarily include disclosure of professional services the member may be rendering or proposing to render to other clients.

Rule 209 Improper Use of Confidential Information

A member or student shall not take any action, such as acquiring any interest, property or benefit, in connection with which he makes improper use of confidential knowledge of a client's affairs obtained in the course of his duties.

Rule 207 means that any individual must inform his or her clients of any possible conflict of interest that may result if he or she were employed by the client.



6. Caroline is a newly graduated certified general accountant. She has found employment with a small firm in rural Alberta. The community is small and very friendly. Caroline has been asked to assist in the audit of the books for the local daycare centre, which her child attends. Caroline knows that the daycare centre wants to apply for a new bank loan so that they can renovate. Is Caroline in breach of Rule 207 by working for the daycare centre?
7. Andy is also a new accountant. He has been given the opportunity to review the financial statements of Mr. Bill Bragalot, a wealthy businessman. While reviewing the financial statements, Andy notices that Mr. B. has invested heavily in overseas stocks which are paying a high return. Andy thinks, "Maybe I should buy some of those investments since they are doing so well for Mr. B." Is Andy in breach of Rule 209 of the Chartered Accountants' Code of Ethics?



Compare your responses with those in the Appendix, Section 1: Activity 2.

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Following is an excerpt from the code of ethics for the Society of Management Accountants of Alberta. Management Accountants are referred to as **CMA's**.

Article I – Competence

- IP-1. A Member has a duty to be competent and to provide competent services.
- IP-2. Except where the Code imposes a higher standard, a Member engaged in the Practice of Accounting must adhere to the highest business standards in the community.
- IP-3. A Member has a duty to serve the Employer's or Client's best interests, subject to limitations imposed by law or professional ethics.

Article IV – Conflict of Interest

- IVP-1. In each matter, a Member's judgment of fidelity to the Employer's or Client's interests must be free from compromising influences.

Following is an excerpt from the code of ethics for the Certified General Accountants Association of Alberta. Certified General Accountants are referred to as **CGA's**.

208 "Communication Issued in Connection with Financial Information"

Shall not issue a communication on any financial information, whether for publication or not, when the information is prepared in a manner which might tend to be misleading.

1. A member shall not sign or associate himself with any letter, report, statement, representation, or financial statement which he knows is false or misleading, whether or not the signing or association is subject to a disclaimer of responsibility.
2. A member who is employed other than in public practice is subject to Rule 208, just as is the member in public practice. It is recognized that under exceptional circumstances this may place such a member in a difficult position vis-a-vis the organization with which he is employed; however, a member fails in his professional duty if he allows himself to be associated with financial statements or other documents which he knows, or should know, are false or misleading.

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² Reprinted by permission of The Certified General Accountants Association of Alberta.

You have now examined the codes of ethics for financial institutions and businesses. Do you know whether it is appropriate for your employer to comment on your hair or dress?

FOLLOW-UP ACTIVITIES

If you had difficulties understanding the concepts in the activities, it is recommended that you do the Extra Help. If you have a clear understanding of the concepts, it is recommended that you do the Enrichment.



Extra Help

Ethics are a set of moral principles or values. It is difficult to impose your ethical views on another person because you have no method to enforce your views. However, if a company has a code of ethics, it can impose sanctions against the employee, such as denying a promotion or firing an employee, if the employee is found in breach of the code of ethics.

Ethics



1. Juanita is an unmarried woman who is employed by the Arden Graphics Company as a graphic artist. Her immediate supervisor, Ian, is also single. Juanita and Ian often work together on large projects. Juanita is attracted to Ian, and she feels he is attracted to her. What are some of the ethical problems that might arise from Juanita and Ian pursuing a personal relationship?
2. Lucas is the coach of the Rockets, a junior hockey team, and has prepared a code of ethics. Which items do **not** belong in the code of ethics?
 - a. The Rockets is a non-profit hockey team dedicated to sportsmanlike behavior and the enjoyment of recreational hockey.
 - b. No players will play without appropriate face guards and mouth guards.
 - c. Players will use appropriate language on and off the ice, in the arenas, and on the team bus.
 - d. The team jacket should be worn with dignity and honour, and should not be defaced in any way.
 - e. All hockey players will refrain from drinking alcoholic beverages eight hours before a league game.
 - f. Players will show respect to officials and organizers of other participating teams.

Compare your responses with those in the Appendix, Section 1: Extra Help.



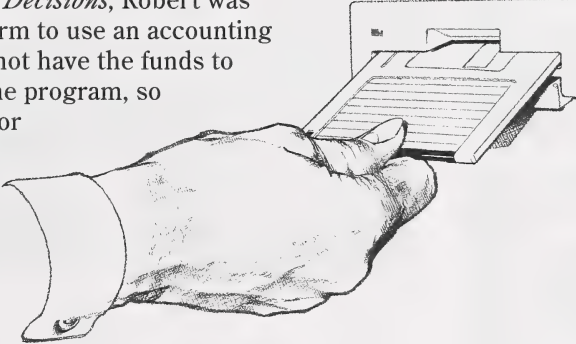
If you have access to a VCR, check with your resource centre to obtain a copy of the ACCESS Network videos, *The Ethics Jungle* and *Making Ethical Decisions*. Each video is approximately fifteen minutes in length, and deals with a number of ethical issues. While you watch the videos, look for the following issues:

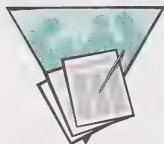
- the difference between ethical behaviour and legal behaviour
- excuses that people use to justify unethical behaviour
- use of company resources

Do **one** of the following activities. Questions 1, 2, and 3 deal with the videos. Question 4 is a research project.

Technology



1. In the first video, *Making Ethical Decisions*, Elizabeth made copies of musical tapes for her friend, Robert. Elizabeth did not consider this to be either unethical or illegal behaviour. Research the Copyright Act and determine whether Elizabeth was demonstrating unethical behaviour or illegal behaviour. (You may find information about copyright posted above photocopiers in your school or local library.)
2. In the video, *Making Ethical Decisions*, Robert was training accountants in his firm to use an accounting program. Robert's firm did not have the funds to purchase several copies of the program, so Robert copied the program for all the accountants to use. In this instance, Robert's company was using the program to make money. Determine whether Robert was demonstrating unethical behaviour or illegal behaviour.
3. In the video, *The Ethics Jungle*, the second scenario deals with three employees discussing padding expense accounts and not working a full day for a full day's pay. Answer the following questions using information from the video.
 - a. What difference would it make to the employees if the lunch they had was considered a business lunch, as opposed to "just lunch"?
 - b. What do you think would happen to employees if they reported that the boss had suggested padding their expense accounts to make up for the raises they did not receive?
 - c. Do you think it would make a difference to an employee if the company addressed padding of expense accounts and business lunches in the company code of ethics? Why or why not?



4. Visit two businesses in your community, such as a retail store, a financial institution, a government office, and a school. Find out whether each of these organizations has a code of ethics. Obtain a copy of their code of ethics if possible. If the organizations you contact do not have a written code of ethics, find out whether there is an unwritten code.

Provide the results of your research in a written report. Use a word processing program, if available.

Compare your responses with those in the Appendix, Section I: Enrichment.

CONCLUSION

In this section you have examined the codes of ethics of financial associations and discovered how a code of ethics can guide and influence employees toward ethical behaviour. Using this knowledge, you should now be able to construct a code of ethics for yourself or for an organization to which you may belong. You will be better equipped to analyse a code of ethics for an organization that you may form yourself or become a part of as you move into the world of work.

ASSIGNMENT

Turn to your Assignment Booklet and do the assignment for Section 1.



The Economic Environment



JIM WHITMER PHOTOGRAPHY

IT is 3:30 A.M. and there is already a long lineup outside the ticket office. Dave and Murali are first in line. This will be the first time their favourite group has come to Yellowknife. Tickets are expensive—\$35—but Murali knows that they'll pay at least twice that much if they wait until the night of the concert to buy tickets.

Murali and Dave are what most people are—consumers. They are consuming a product—the rock concert—and they are responding to the ticket sales as the organizers of the rock concert hoped they would. Much planning and organization goes into a venture such as a rock concert, and factors beyond the control of the organizers can have an effect.

In this section you will explore the effects of the economy on decision making and planning for an individual and for a small business.

SECTION 2

ACTIVITY I

Influences on the Economy



What Is Economics?

▼
economics: *the study of how society organizes its production, distribution, and consumption of goods and services*

production: *the output of goods and services*

distribution: *the process of marketing and supplying goods to the consumer*

consumption: *the use of goods and services*

Society requires a systematic way of making decisions to balance the goals of the individual person and the goals of society as a whole. The study of **economics** helps individuals and small business owners make these decisions. Three factors involved in economics are production, distribution, and consumption.

The **production** of goods and services is the beginning of the economic cycle. An accountant provides a service, while a factory produces goods.

Distribution includes the advertising, promotion, and supplying of goods. An example of distribution of goods is a shipment of cars received in Canada from Europe or Asia.

Consumption involves the use of the goods and services that have been provided. Everyone in society is a consumer. As a student, you are consuming this course of studies!

What Is an Economic System?

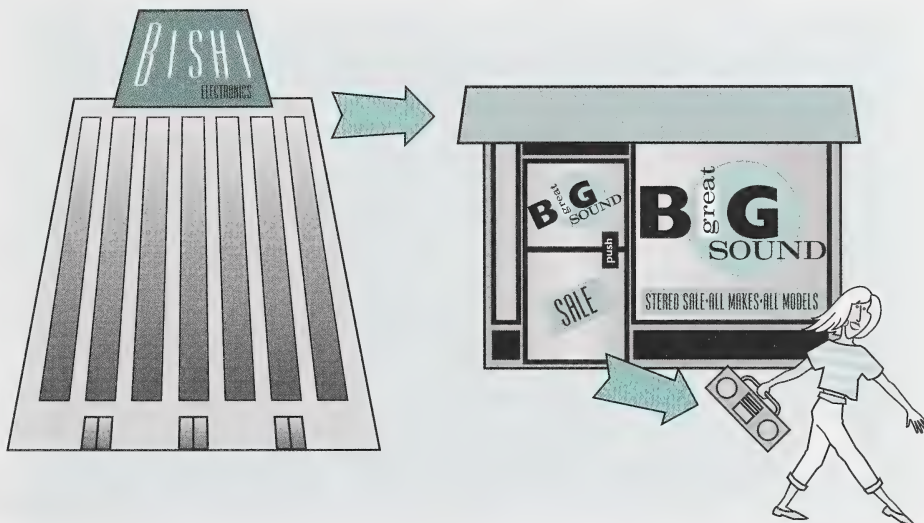
The political and philosophical forces that drive economies vary from country to country. The three most prevalent economic systems are capitalism, socialism, and communism.



Capitalism stresses an individualistic philosophy; most of the means of production and distribution are privately owned. Socialism stresses government-owned or government-regulated means of production and distribution. Communism stresses government-owned means of production and distribution, with additional controls on consumption.

Canada's Economic System

The Canadian economic system is a unique combination of capitalist and socialist policies.



Teamwork



1. Working with a partner (if possible), determine which of the following activities you think are controlled by the public sector (the government) and which are controlled by the private sector (individuals and corporations). In some instances, both the public and private sectors may be involved. Put a check mark (✓) in the appropriate column. In some cases you may have check marks in both columns.

PUBLIC OR PRIVATE?					
Activity	Public Sector	Private Sector	Activity	Public Sector	Private Sector
Law and order			Transportation		
Post offices			Utilities		
Banks			Farming		
Health care			Education		

2. Indicate who (the government or the individual) would likely have control of the following business activities under each of the three economic systems. Put a check mark (✓) in the appropriate column for each.

WHO HAS CONTROL?						
Business Activity	Capitalism		Socialism		Communism	
	Gov't.	Indiv.	Gov't.	Indiv.	Gov't.	Indiv.
Hamburger restaurant						
Utilities company						
Grocery store with three employees						
Plumbing company with ten employees						
Knitting company operating from a home						
Large mining company						
Large business conglomerate						
Postal service similar to Canada Post						

Compare your responses with those in the Appendix, Section 2: Activity 1.

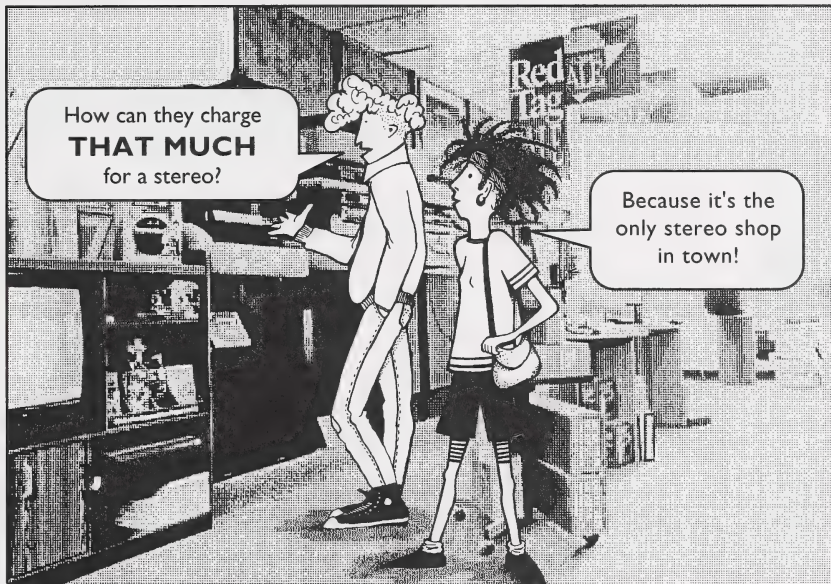


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Factors that Influence the Economy

There are many factors that influence the economy in a country. Some of the factors that will be discussed briefly are:

- competition
- supply and demand of goods and services
- inflation and recession
- fiscal and monetary policies
- world market and international trade



What Is Competition?

It is said that people thrive and survive on **competition**. Can you think of things in your life that are based on competition? If you look around, you will see that the world is filled with different competitions.

Whether you are watching a hockey game or entering an essay in a contest at school, competition is everywhere.



competition: a rivalry between businesses selling the same product or service

demand: the desire for a product or service coupled with the ability and willingness to pay for it

supply: quantities of a product offered for sale at all of the possible prices that might prevail in the marketplace



supply curve: a graph that indicates the supply of a product or service at a particular price

Think back to the example in the introduction to this section. Was there competition for the rock concert? Was there another rock concert of equal interest in the area at the same time? Buyers compete with one another to purchase the best goods at the lowest cost; sellers compete with one another to attract buyers.

What Is Supply and Demand?

Dave and Murali and the other fans standing in line to purchase rock concert tickets created a **demand** for the tickets. Since the **supply** of the tickets is limited to the number of seats in the concert arena, it might be assumed that the demand will exceed the supply, thus driving the price of the tickets upward. These statements can be combined into a simple rule of supply and demand.

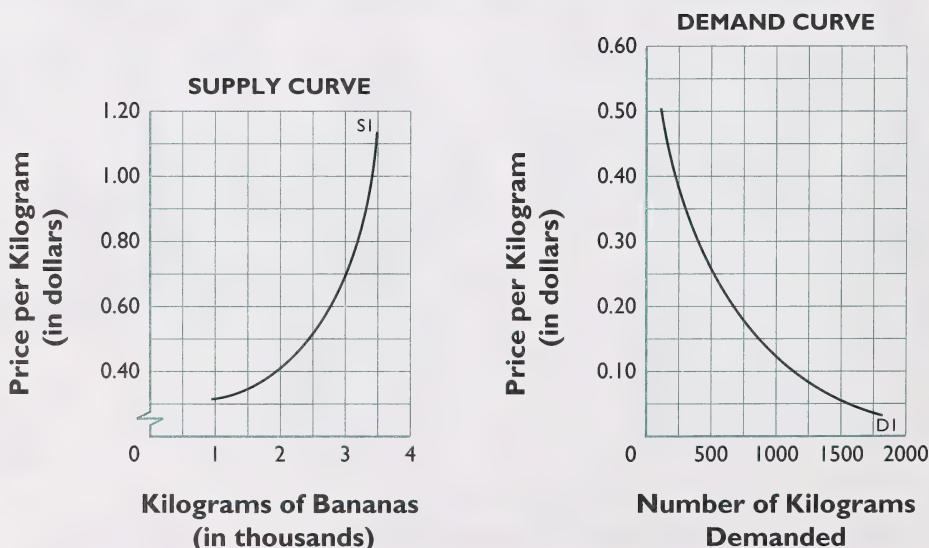
If the demand for a product exceeds the supply, the price will go up; if the supply exceeds the demand for a product, the price will go down.

In a capitalist economic system, the market regulates the amount of goods and services that will be supplied. Suppliers will supply only the amount of a product that can be sold at a certain price. The quantity of goods supplied will increase if the price increases.

The demand for a product is the amount consumers are willing and able to pay for the product. Price does have an effect on the demand—the demand increases when the prices are lower.

The supply and demand curves for bananas are shown.

TABLE 2.1
SUPPLY AND DEMAND CURVES FOR BANANAS



The supply curve, labelled S1, shows the quantities of bananas supplied at various prices. Notice that it slopes upward and to the right. This means that the quantity of an economic product being sold varies directly with its price. If prices are high, suppliers will offer greater quantities for sale. If prices are low, the quantities offered for sale will be low. This constitutes the **law of supply**.

law of supply:

The quantity of an economic product being sold varies directly with its price.

demand curve:

a graph that indicates the quantities demanded of a product or service at a particular price

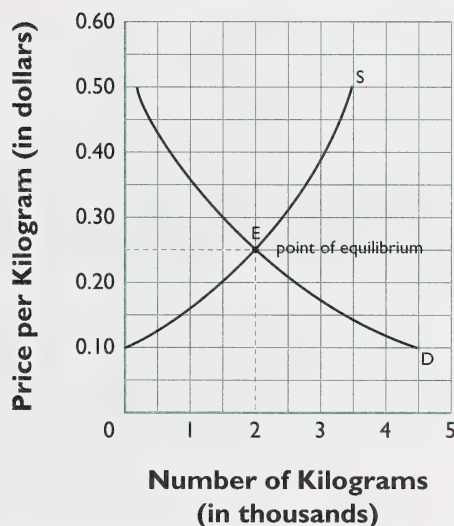
law of demand:

The demand for a product varies inversely with its price.

The **demand curve**, labelled D1, indicates the demand for bananas at various prices. Notice that it slopes downward and to the right. This means that if prices are high, the quantities demanded will be low; if prices are low, the quantities demanded will be high. This is the **law of demand**.

The supply and demand curve for bananas can be combined and plotted on a graph.

TABLE 2.2
BANANAS: SUPPLY AND DEMAND



equilibrium

point: *the point at which both the producer and the consumer are satisfied with the product price*

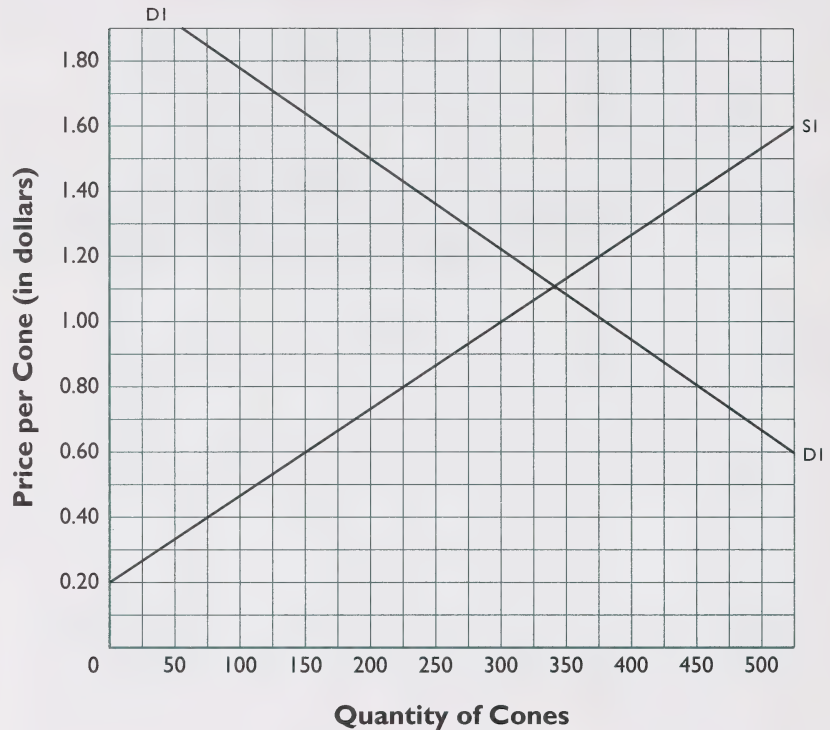
The point on the graph where the two curves intersect, marked E, is the **equilibrium point**. It is at this point that both the producer and the consumer are satisfied with the product price. This point is the price at which both the quantity demanded and the quantity supplied are equal.

If the price is above the equilibrium point, there is an excess supply. For example, if the price of bananas is 40¢ per kilogram, the supply is 3150 kg, and the demand is 800 kg. Therefore, there is an excess of 2350 kg of bananas at 40¢ per kilogram.

If the price is below the equilibrium point, there is an excess demand. For example, if the price is 20¢ per kilogram, the supply is 1500 kg and the demand is 2700 kg. This is an excess demand of 1200 kg at 20¢ per kilogram ($2700 - 1500 = 1200$).

3. Delici is a popular ice cream that is produced in thirty-three flavours and sold in cones. The supply and demand curves for Delici in the single cone size have been plotted on the following graph.

TABLE 2.3
SUPPLY AND DEMAND — DELICI CONES



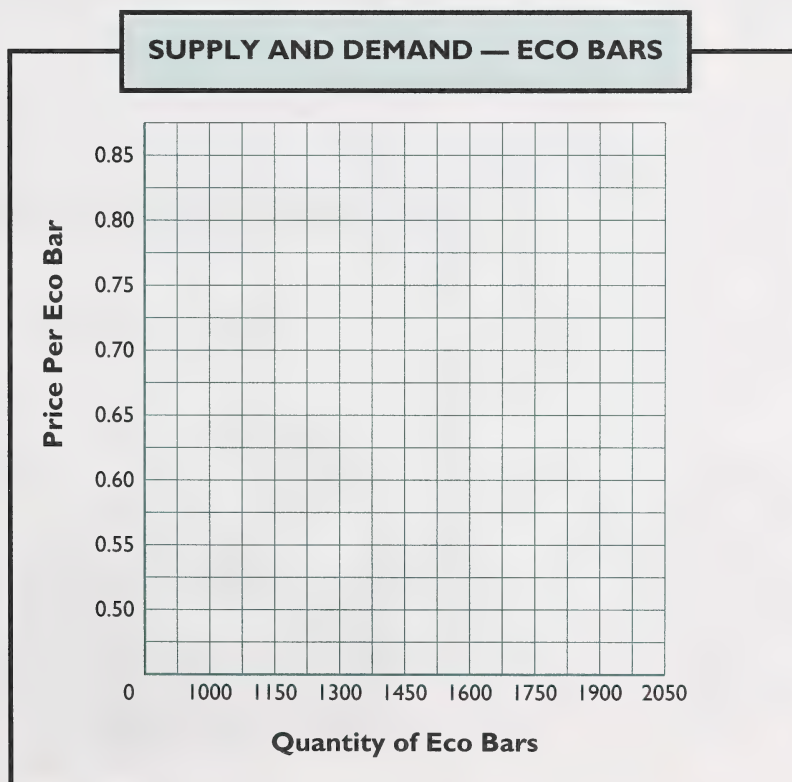
- From the graph, determine the demand for Delici cones at the following prices.
 - \$1.50 per cone
 - 80¢ per cone
- What is the supply of Delici cones at the following prices?
 - 80¢ per cone
 - \$1.40 per cone
- What is the equilibrium point for Delici Cones?
- Is there an excess demand or excess supply when the price is 95¢?
- How much is the excess at 95¢?

4. After an analysis of the market, it was determined that Eco chocolate bars could be sold and produced in the following quantities at the indicated unit prices.

TABLE 2.4
SUPPLY AND DEMAND

Supply Table		Demand Table	
Quantities	Unit Price (in dollars)	Quantities	Unit Price (in dollars)
1150	0.55	2050	0.55
1300	0.60	1900	0.60
1450	0.65	1750	0.65
1600	0.70	1600	0.70
1750	0.75	1450	0.75
1900	0.80	1300	0.80
2050	0.85	1150	0.85

- a. Using the information contained in the supply and demand tables, plot the supply and demand curves on the following graph or reproduce your own using a computer spreadsheet program.



- b. What quantity of Eco bars is supplied at the equilibrium point?
- c. What is the demand and supply at 72¢?
- d. What is the demand and supply at 63¢?

Compare your responses with those in the Appendix, Section 2: Activity 1.

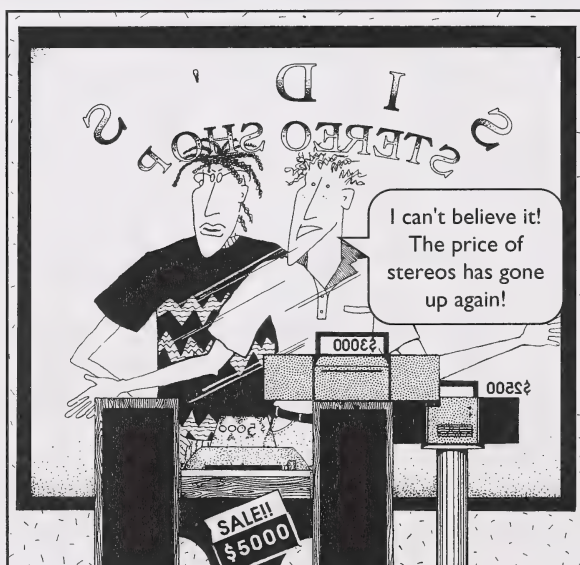
What Is Inflation and Recession?

Countries with a capitalist economy are prone to business cycles. The economy moves from periods where economic activity is high and there is full employment, to stages of low economic activity and high unemployment.

The government invests in the economy to lessen the effects of the business cycle in periods of low economic activity. This is accomplished by instituting work projects to provide employment, lowering interest rates to encourage private individuals to invest, and by other means. The government's policy of stimulating the economy in periods of low economic activity must be carefully controlled because it has the effect of causing an increase in the demand for goods. If there is no increase in the supply of goods, the following will result:

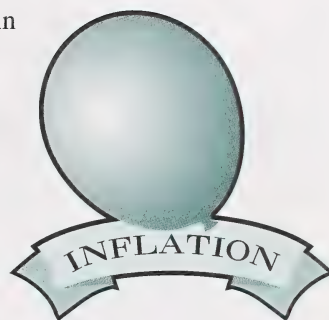


- Prices will rise.
- Consumers will require more money to purchase the same quantity of goods.
- Wage increases will be implemented. People will demand more money for completing the same amount of work.
- People will spend more.



inflation: a continual increase in prices resulting from the economy being spent beyond its existing level of output. Prices rise and there is a feeling of trying to catch up.

This will have the effect of causing a further increase in the price of consumer goods. Such a continual increase in prices is called **inflation**. If inflation is allowed to go unchecked and nothing is done to reverse the trend, it becomes a serious problem. Savings are eroded, while productivity and the standard of living are adversely affected. To reverse the trend, the government may do the following:



- Increase interest rates to discourage borrowing and encourage savings.
- Increase taxes to discourage consumer spending.
- Implement wage and price controls.

5. While doing her grocery shopping, Cynthia reflects about what she has heard on the radio about inflation. She has a set amount of money to spend on food each month. Cynthia wonders how inflation can affect her, considering she regularly receives money with which to shop, and there are always lots of goods to buy. Explain how inflation can affect Cynthia.

fiscal policy: the manipulation of government revenues and expenditures in an effort to produce the desired effects on national income, production, and employment

monetary policy: the manipulation of the money supply and interest rates in an attempt to produce the desired results on national income, production, and employment

national income: the total of all incomes earned in the production of goods and services during the year

Compare your responses with those in the Appendix, Section 2: Activity 1.

Fiscal and Monetary Policies

The ultimate economic goal is steady growth, maintenance of a high level of production, full employment, and stable prices. It is the role of the government to make sure that the economy operates efficiently.

Canada uses two government policies to achieve these economic goals—the **fiscal policy** and the **monetary policy**.

Fiscal policy is the manipulation of government revenues and expenditures to produce the desired effects on national income, production, and employment.

Monetary policy involves manipulating the money supply and interest rates to produce the desired results in **national income**, production, and employment.

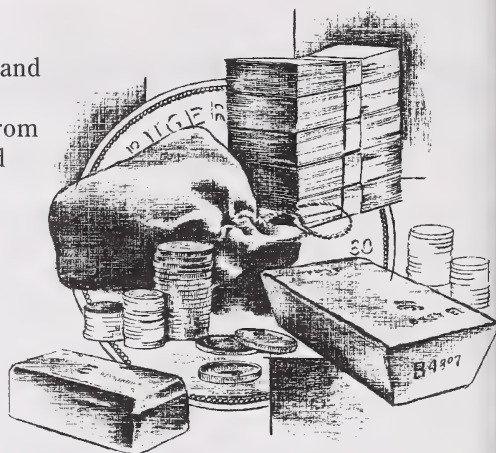


▼
recession: a phase of the business cycle in which economic activity has slowed down and is headed downward. Unemployment rises, sales decrease, and profits decline during this phase.

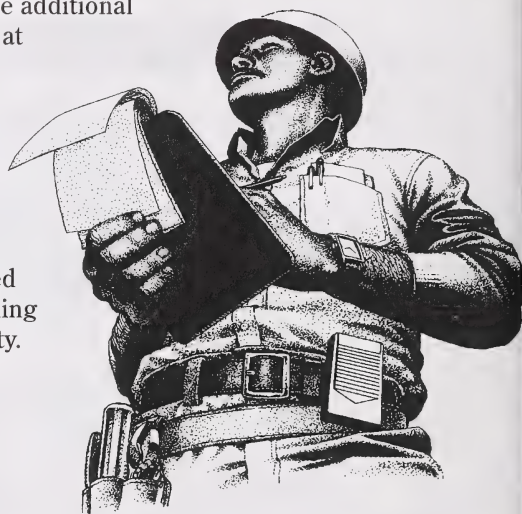
During a **recession**, fiscal policy is used to stimulate the economy. During an inflationary period, fiscal policy is used to hold back the economy.

Inflation results from an excessive demand being placed on the producing sector. Raising taxes and taking money away from the public removes spending power and reduces inflation pressures on the economy.

Fiscal policy is also practised by provincial and local governments. Since both of these governments collect taxes and spend money, projects can be initiated to provide employment and stimulate the economy. The main purpose of government spending is to provide services for the public; the main reason for taxation is to pay for this government spending.



A more serious recession may require additional expenditures to keep unemployment at pre-recession levels. New roads, the construction of public buildings, or other job-creation programs may be implemented. Timing is very important. It is difficult for a government to react quickly when the economy is threatened by recession. Fiscal policy that is applied appropriately should result in a levelling out of fluctuations in economic activity. If this happens, employment and the demand for goods and services will remain steady.



6. A city is expecting a recession. One of the major industries in the province is in a severe recession and the effect of this slump will soon be felt in other industries. The building industry is expecting to be hit hard by the recession, which will cause many people to be unemployed. Unemployment and welfare lines are expected to swell.

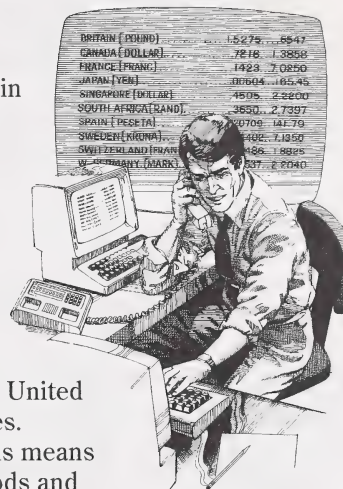
City organizers have been contemplating the construction of a new city hall. The plans have been approved; however, in the minds of some people, the cost of the building is too high. They feel this is not the time to borrow money and create an additional burden on taxpayers. The people feel that the city hall they have now is adequate.

- a. List two reasons why the city should build a new city hall now.
- b. List two reasons why the city should not build a city hall at this time.

Compare your responses with those in the Appendix, Section 2: Activity 1.

World Markets and International Influences

No country in the world can produce all the products that its people want at a price they can afford. For example, bananas could be grown in hothouses here in Canada, but consumers would be unable to pay the price. Each country enjoys some advantage in production. Canada has provided the world with grain products for over a century; California provides North America with oranges; and Canada receives coffee and sugar from South America.



The North American Free Trade Agreement (NAFTA) opens the boundaries between Canada, the United States, and Mexico for the trade of goods and services. However, a balance of trade must be maintained. This means that imports and exports must balance so that all goods and services are not imported.

Careers

7. Casey and Dianne live in southern Saskatchewan, near the Alberta border. They operate a book store called The Bookworm in a small town. They purchase their office supplies and equipment locally, as they feel this helps to support the local businesses, who in turn support The Bookworm.

A new coffee shop called Coffee Heaven has opened across the street from The Bookworm. This shop primarily sells coffee and light lunches, but also has a section where paperbacks and magazines are sold.

Paperback and magazine sales usually account for over 40 percent of The Bookworm's monthly sales, but, since Coffee Heaven has opened, The Bookworm's sales have dropped drastically. Casey has checked out the prices of books at Coffee Heaven, and they are considerably cheaper than his own. Casey and Dianne have discovered that the owners of Coffee Heaven have connections to a trucking company in Alberta, where they make all their purchases of books, magazines, coffee supplies, and equipment. Since Alberta does not have a sales tax, the owners of the new business can sell their goods and services at a reduced rate.

Ethics

What has occurred here is common in business. Should the government become involved and require the Coffee Heaven owners to purchase goods in Saskatchewan? Is this fair business practice for the owners of The Bookworm?

Compare your responses with those in the Appendix, Section 2: Activity 1.

Pacific Rim Trade

As the end of the twentieth century draws near, Canada must look for new trading markets. Over the last hundred years, Canada has done most of its trading with the United States and Europe. As Canada decreases its trade with Europe, it is steadily increasing business ties with Pacific Rim countries. The next century is considered to be the “Century of the Pacific” for Canadian business opportunities in international trade. The Pacific Rim includes Australia, New Zealand, island countries in the Pacific region, Asian countries, and the North Central and South American countries that border the Pacific Ocean. British Columbia is now trading more with Pacific Rim countries than it does with the United States, which is quite amazing when you consider that more than 70 percent of Canada’s trade is with the United States.

The Asia–Pacific region is Alberta’s second largest export market. The Alberta government sees excellent potential in the areas of tourism, investment, and business immigration. Alberta has goals to increase total exports and to increase tourism revenues as a direct result of increased business with the Asia–Pacific region.



As more and more Canadian exports are sent to the Asia–Pacific region, more jobs will be created in Alberta to meet the demand for those exports. In addition, there will be increased foreign investment and international partnerships.

International trade is vital for the Canadian economy; therefore, businesses must be prepared to look beyond Canadian borders and into the heavily populated Pacific Rim region. It is not an easy task since countries like Japan make it difficult for foreign businesses to export products into its country.

Canada currently exports large quantities of raw materials to Japan and imports sophisticated manufactured products such as automobiles and electronic equipment.



In the past, Alberta primarily exported resources like coal and wheat to Japan and China. Alberta’s primary exports to Japan are still fuels, petroleum products, canola, pulpwood, and cereals, but now Alberta is also drilling for oil, shipping cattle, and exporting telecommunications technologies to certain areas in the Asia–Pacific region.

8. Look around your home and find ten purchased products. Examine the labels and indicate where each product is made.

The Future of Canada and Pacific Rim Business

Asia is a high economic growth area with new industrialized countries coming into the international market. Businesses from Hong Kong have been encouraged to open plants in Alberta. The premier of Alberta has made several trips to Hong Kong and other parts of Asia in an attempt to bring business to this province. Any success would mean more jobs and economic opportunities for people in Alberta. Canadian provinces and cities are competing with each other in trying to entice various foreign businesses to open plants in their areas. Government bodies will give these foreign businesses tax breaks and other incentives if they will move to their province or city.

The Canadian business community is beginning to see Asia as a new business frontier.

Canadians must become more familiar with the Far East and Pacific regions and with Asian ways of doing business. Canadians must also commit themselves to developing a solid business relationship with the area. Familiarity, honour, and trustworthiness are important elements for business relations in Asia.



WESTFILE INC.

Tourism is big business in Alberta. The number of tourists from Japan are increasing every year, to the point where there is a shortage of Japanese translators. In Banff, a large number of restaurants have menus written in Japanese. To help inform people about their Asian friends and business partners, some schools in Alberta offer Japanese language courses.

As you can see, it is important that Canadians understand the Pacific Rim region and how this market can be a major trading partner. Therefore, businesses must be prepared to meet the new challenges ahead in the Pacific Rim.

9. If you were in business would you look at the Pacific Rim region as a threat or an opportunity? Why?

Compare your responses with those in the Appendix, Section 2: Activity 1.

Opportunities abound outside Alberta's borders for business growth. The modern business person must be aware of the economic environment in order to be able to take advantage of opportunities and create opportunities.

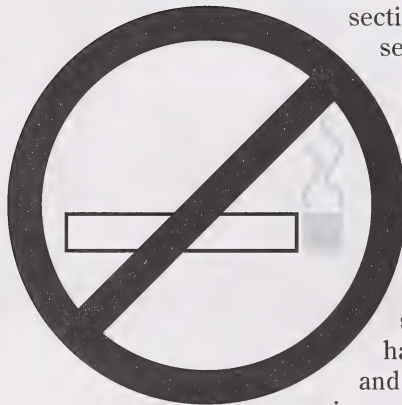
Activity 1 contained basic terminology and information to help you better understand the concepts of economics, price changes, supply and demand, and competition. The next activity introduces you to issues that create economic change.

ACTIVITY 2

Issues Creating Economic Change

Jenelle and Russell were going out to dinner on their first date.

When they entered the restaurant, the hostess asked if they wanted to sit in the smoking or non-smoking section. After they were seated in the non-smoking section, Jenelle smiled at Russell and said, "It's great to be able to go out to dinner and not have to smell cigarette smoke." Russell agreed. "I remember when there were no such things as non-smoking sections. I guess that society has changed its point of view about cigarette smoke."



What economic effect might a non-smoking section have on a restaurant? The owner might have to make a separate area for the non-smokers and make sure that the restaurant air supply flows in a manner that does not bother the patrons. This is a simple example of how environmental issues may create economic change.

Environmental Issues that Create Economic Change

In the world of work, an environmental economic philosophy is developing. In the past, companies were producers and distributors of goods and services. They could use natural resources as long as they followed the local rules imposed by governments. However, this aspect of community responsibility has changed and companies are now expected to reflect a “global conscience” and environmental awareness. Some of the issues that affect modern businesses include the following:

- conservation of natural resources
- protection of the environment
- recycling of materials and energy
- not testing products on animals

This develops the conflict between the interests of a company and the interest of the community. Businesses that do not reflect an interest for environmental issues are often targeted by environmental protection organizations. Other companies, such as The Body Shop, have made a commitment to the opposition to animal testing of cosmetics and joined an international campaign to raise awareness of the burning of the Amazon rain forest. Finally, every Canadian Body Shop donates 16 hours of paid employee time every month to local charitable activities. The Body Shop Canada recycles paper and cardboard, prints its letterhead on recycled stock, and uses environmentally safe cleaning products.



1. Do you feel that The Body Shop's approach to environmental issues has an effect on its business? What about the cost of its products?

Compare your responses with those in the Appendix, Section 2: Activity 2.

Legal and Social Issues that Create Economic Change

It is the fall of 1994 in Edmonton, and the Northlands Coliseum is empty. The National Hockey League Players' Association has been locked out by the owners in a contract dispute. At first glance, one might think that this event affects only the players and the owners. But a widening circle of businesses and industries were affected by the strike. These included the following:

- restaurants near the Coliseum where fans would stop for a meal before or after a game
- employees of the Coliseum: janitors, concession attendants
- sporting goods stores where hockey souvenirs are sold
- broadcasting corporations that televise games and radio programs and offer play-by-play coverage

Ethics



Other industries found the strike to be to their benefit. These included the following:

- local live theatres and cinemas
- other recreation facilities: pools, bowling facilities, and skating facilities
- broadcasting companies that did not have to compete with hockey for viewers

It is difficult to measure the economic impact that having a National Hockey League team in Edmonton creates, but there is an impact that far outreaches the limits of the hockey arena.

2. Should citizens in a city subsidize a local sports team with their tax dollars? What is your opinion? How does your family stand on this issue?

Compare your responses with those in the Appendix, Section 2: Activity 2.

A second legal and social issue that has affected Albertans in the past year has been the location of video lottery terminals (VLTs) in bars and restaurants throughout Alberta. These terminals were introduced to collect revenue for the province of Alberta and to provide the entertainment of gambling to Albertans. The terminals have proven to be extremely popular throughout Alberta. They have had both good and bad impacts on Albertans. Some of the positive impacts follow:

- don't have to travel to Las Vegas to gamble
- increased income to the private business that operates the VLTs
- increased revenues to the Alberta government to be redistributed to all Albertans, thus preventing a tax increase

Albertans have always enjoyed a sales tax-free province, much to the envy of Alberta's neighbours. The video lottery terminals are helping to prevent a tax increase in Alberta. Who else might be affected?

Most charitable organizations, schools, and sporting organizations in Alberta have operated fund-raising bingos and casinos for many years. The bingos and casinos are staffed by volunteers from the particular club or organization, and the profits are returned to that club. This has formed the major fund-raising event for many organizations and schools in Alberta. With the introduction of the video lottery terminals, however, the number of people attending bingos and casinos has decreased, thus creating a social issue and conflict. Balance will need to be struck between these two functions which are competing for the recreation and entertainment dollars of Albertans.

In addition to the financial aspects of video lottery terminals, the public has expressed increasing concern with respect to the addictive aspect of gambling. Stories of individuals spending their entire salaries on video gambling have surfaced, and the social cost of gambling now has to be weighed against the financial benefits that accrue to Alberta's citizens.



3. Canadian tax dollars are collected from alcohol and cigarette sales in Canada. This tax flows into the general revenues of the country, and helps to pay for services for all Canadians. However, there are many Canadians who suffer from alcoholism and physical ailments connected to smoking. What would happen if the federal government removed the tax from cigarettes and alcohol and the prices dropped?

Compare your responses with those in the Appendix, Section 2: Activity 2.

Human Resource Issues that Create Economic Change

Too much government involvement may interfere with a person's freedom of choice, reduce the individual incentive to work and to invest, and make the individual more dependent on the state. The more services, subsidies, and regulations requested by the private individual, the more the government has to increase taxes and other sources of revenue to pay for these services. Tremendous power has become concentrated in government, which is now the largest employer and purchaser of goods and services in Canada.

privatization:
selling
government-
owned
corporations to
individuals

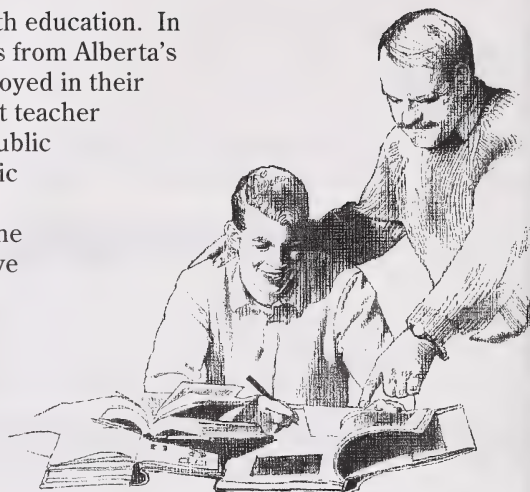
Since early in the 1970s **privatization** has become more common. Privatization is based on the belief that privately owned companies are managed more efficiently because of the profit motive, and because of competition from other privately owned companies.

In 1994, the Alberta government, in an effort to reduce the provincial deficit, reduced many government services. This included the privatization of Alberta liquor outlets, the reduction of funding to health care and education, and a general downsizing of the government operation. What effect did this downsizing have on the human resources (the people) who were involved?

In the areas of nursing, many new graduates found themselves unemployed. These skilled individuals have, in some cases, turned to the private sector for employment in the form of home care nursing positions and consultation on a private basis. Others are responding to offers of employment from the United States, where there is an desire to hire Alberta's highly skilled graduates. This has created economic change in Alberta, and the outcome of this change will be felt in the years to come. The move toward privatization and user fees for services is an effort to balance the financial books of the province of Alberta, but the employment arena now faces a high rate of unemployment and underemployment.



The same situation has occurred with education. In the past, skilled education graduates from Alberta's universities could expect to be employed in their home province. Now the two largest teacher employers in Alberta—Edmonton Public School Board and Edmonton Catholic School Board—have announced reductions in teaching staff due to the reduced budget. Many teachers have gone to the United States and Japan to teach. Others have opened private businesses, including tutoring services and private schools.



These factors will change the economic climate in Alberta.



4.



Rolf is a recent graduate of the University of Calgary in education. Rolf was born and raised in the Lethbridge area and is engaged to be married to Cindy. They are waiting until Rolf has found full-time employment before they continue with their marriage plans. Rolf is aware of the scarcity of teaching positions, and has been offered a part-time position in northern Alberta. This position would pay \$13 000 per year, as it is only in the mornings. Another position has become available in Saudi Arabia for a year. This position pays \$36 000 and Rolf will receive one trip home within that year's contract. Neither position affords an opportunity for Cindy to come along and work.

Outline the advantages and disadvantages of each of the positions.

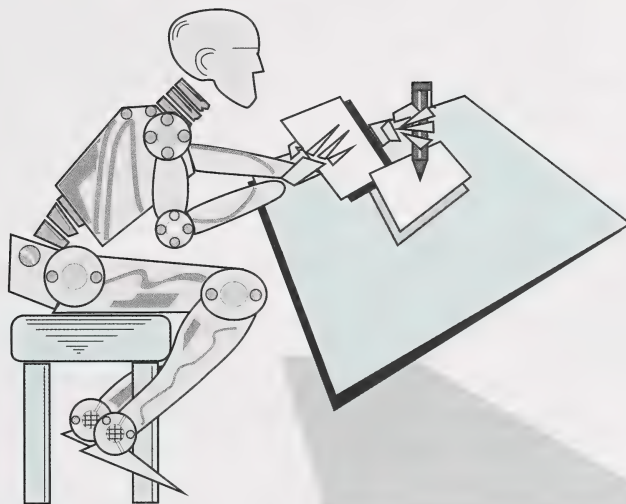
Position	Advantages	Disadvantages
Northern Alberta		
Saudi Arabia		

Compare your responses with those in the Appendix, Section 2: Activity 2.

Activity 2 introduced you to different aspects of economic change. You analysed several issues that create economic change and you developed an awareness of the difficulties encountered by individuals and small business in dealing with these changes. Activity 3 will now provide you with an overview of planning for anticipated economic changes and how individuals and small business owners plan and predict these changes.

ACTIVITY 3

Economic Decisions and Strategic Planning



The year is 2015. All residents of Canada are provided with a financial account number (FAN) at birth. This replaces the former social insurance number. Using this number, they can debit expenses for medical services, public transportation, and education. The amount is deducted from their “lifetime account,” which includes their annual tax credits from the government, any salaries or wages they earn over their lifetime, and withdrawals for housing, entertainment, and the necessities of life. There is no need to calculate income tax each year, as this is all handled electronically. No one is without the basics of life, and the FAN also serves as the communication number for sending and receiving messages via the intermodem (formerly the telephone system). Education takes place at home, as does most employment. The current unemployment figure is approximately 30 percent, thus placing a high credit burden on those who are employed to support those who are not. Crime is at a minimum because all possessions are electronically tagged and can be tracked. Those acts of violence that result in imprisonment require the prisoners to submit to medical personality altering as a form of rehabilitation. It is 100 percent successful.

Is the previous scenario possible? Probably not. Canada will, in all likelihood, continue along the same path as present, with moderate changes and minor effects on the economic system.

In this activity you will examine the effects of the economy on decision making. You will also examine the concept of planning for an individual and a small business. With the pace of change increasing, individuals and businesses must learn to adapt to economic changes. How do individuals and small business owners predict change? Look at what the experts do.

Strategic Planning for the Future

There are three main methods of strategic planning for the future—the scenario method, the trend analysis method, and the model method.

Scenario Method

A scenario writer, usually an economist, chooses a single possible future situation, and then traces the sequence of events that might lead to that scenario.

There are certain advantages to using the scenario method. It uses creative, imaginative ideas that may not be revealed in a traditional analysis, forecasting a future based on intuition and instinct.

There are also disadvantages to the scenario method. The scenario is only as good as the economist who prepares it. Many errors could occur from lack of information or knowledge in certain areas.

Trend Analysis Method

This method relies on the belief that what has occurred in the past will occur in the future. This is a popular method for accountants, and they use their financial statements to assist in this analysis.

Advantages: Individuals are generally slow to change, and basing your future on past performance can be a reliable and “tried-and-true” method.

Disadvantages: Individuals may be averse to change, but society itself is changing, and a company must not live in the past when dealing with decisions that affect the future.



Model Method

This method uses computer statistics from around the world and other data to create a model. By altering the data, a variety of futures can be predicted.

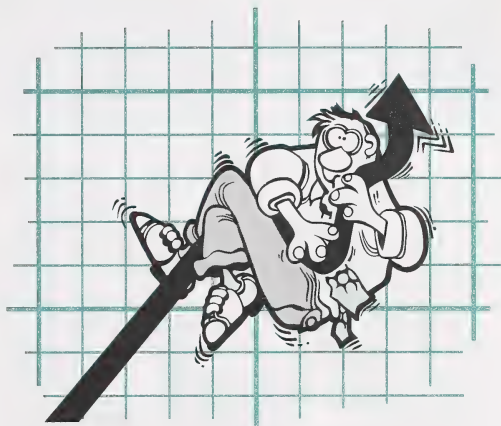


Advantages: Trends that are just emerging may be revealed to the small business person, who is small enough to be able to take advantage of the knowledge and make changes quickly.

Disadvantages: There may be an information overload. The analysis is only as good as the information provided.

Combination of the Three Methods of Strategic Planning

Many organizations use the services of data collection agencies to provide them with information from around the world. These organizations also rely on their financial statements as a prediction of where they have been and where they might go. And finally, they rely on expert information and scenario writing to develop their company philosophy and business plan for the future. They combine all these factors with their instinct for business to develop their plans for the future.



Careers

1. Alicia has decided to open a coffee house in a busy section of Edmonton. Alicia was in Toronto in the summer, and there were coffee houses everywhere. She is excited about her venture. What follows are typical questions that would be asked by an individual planning a business venture:

Are there coffee houses in Canada that are making money? Look at their financial statements.

What will people be drinking as their daily beverage in the future? Where will people be drinking this beverage?

What are the statistics on how much coffee Albertans drink? What kinds? Where? How much does coffee cost per cup to produce?

- a. What will Alicia need to know about the “market” or the people in the area where she is planning on opening her business?
- b. What if there is a frost in coffee-producing countries and the price of coffee beans skyrockets? How will this affect Alicia’s decision?
- c. What if there is a health scare concerning the amount of caffeine in coffee? How might this affect the business?
- d. List as many economic factors as you can that concern the financial risks of Alicia’s decision.

Compare your responses with those in the Appendix, Section 2: Activity 3.

Why Do Businesses Fail?

Between 70 and 80 percent of all new businesses will fail before their fifth anniversary.

Incompetence accounts for almost 45 percent of business failures. This may include:

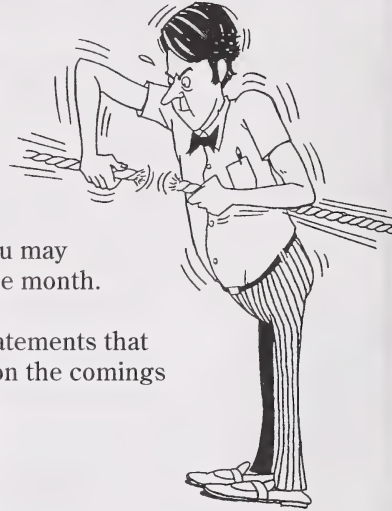


- financial mismanagement
- insufficient profit margin
- overestimating sales and underestimating break-even volume
- poor employer-employee relations
- poor time management

Financial Mismanagement

A business may be able to raise the capital required to begin the business, but then underestimates the cash flow that the business will require. For example, if you are selling to customers who are paying by credit card, you will not receive your payment from the credit card company until the end of the month, but you may have to pay your suppliers at the beginning of the month.

Crucial to financial management are financial statements that give the business owner up-to-date information on the comings and goings of the cash in the organization.



Insufficient Profit Margin

Underestimating expenses and underpricing the product or service is a common cause of business failure. It is easier to reduce the price of a product at a later date, rather than try to increase the price to meet the profit margin.

Overestimating Sales

Overly enthusiastic business owners may find themselves in hot water quickly if they overestimate their sales. They should be conservative to begin with and then increase their expectations when the business shows that it is going to be successful. Maintaining a break-even volume is not enough to stay in business.

Poor Employer-Employee Relations

Employees need to be true participants in the organization, not just “worker bees.” Employers who do not keep their employees involved, informed, and committed to the company goals will find themselves hiring, firing, and re-hiring employees, which reduces productivity and staff morale.

Poor Time Management

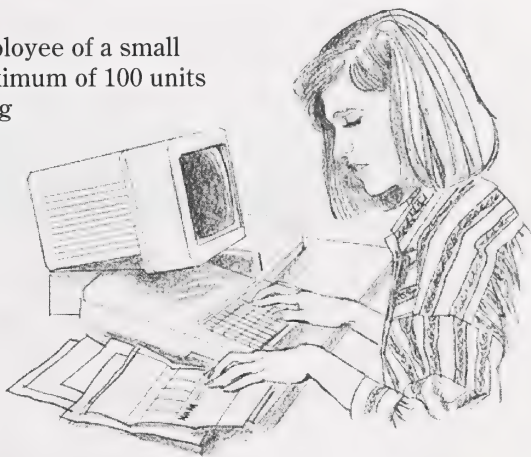
Why is it that some people can get many tasks accomplished in a day, while others are continually running around in circles? Time management for an employer is a vital skill. There is a great deal of physical and emotional stress involved in starting a new business venture, and family and personal commitments often may have to be set aside for the business.

Careers

- Eva is planning to start a business called Excell Lawnmower repair. She has personal assets valued at \$2000 and requires an initial set-up cost of \$8000. This money is required to obtain a location for the business, as well as miscellaneous start-up costs, advertising, supplies, and a beginning inventory for the small company. Eva is having a difficult time convincing the chartered banks to give her a loan. What other solution is most practical? Why?

Careers

- Leona is the owner and sole employee of a small business that can produce a maximum of 100 units per working day. Her advertising campaign has been very successful, and by Day 2 she has received orders for 950 units which must be delivered no later than Day 11. She is also required to be in Banff and Jasper on Days 9 and 10 in order to meet with prospective clients. In addition, Leona must travel to Saskatoon on Day 12 to meet with a major supplier. A failure to produce and deliver these promised units or cancel any of the meetings will result in lost sales and will damage her company's reputation. Leona does not want her company to become a failed enterprise, but some solutions are needed to solve this problem. The following calendar cannot be altered in any way.



Day 0	Day 1	Day 2	Day 3	Day 4
	100 Units	100 Units	100 Units	100 Units
Day 5	Day 6	Day 7	Day 8	Day 9
100 Units	100 Units	100 Units	100 Units	Trip to Banff
Day 10	Day 11	Day 12	Day 13	Day 14
Trip to Jasper	950 Units to be Shipped	Trip to Saskatoon	100 Units	100 Units

- What will happen if Leona tries to meet production requirements by herself?
- What will happen if Leona hires an employee to work five days a week?
- What results can be expected if she hires a sales representative for the company?

Compare your responses with those in the Appendix, Section 2: Activity 3.

FOLLOW-UP ACTIVITIES

If you had difficulties understanding the concepts in the activities, it is recommended that you do the Extra Help. If you have a clear understanding of the concepts, it is recommended that you do the Enrichment.



Extra Help

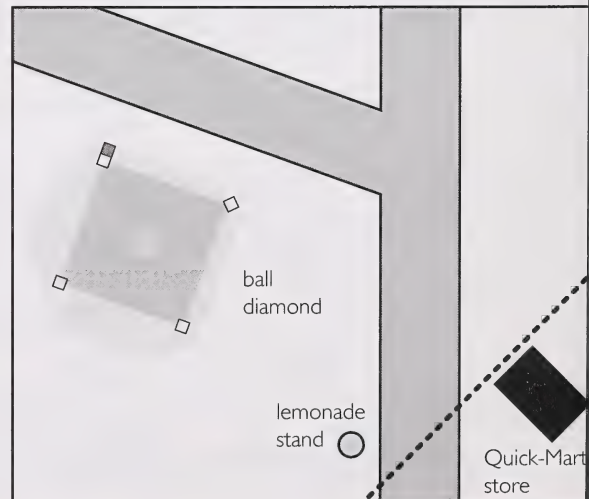
Everyone is a consumer and is affected by supply and demand, competition, inflation, and world markets. Look at a familiar example of how supply and demand works.

The Lemonade Stand

Carlos and Anita live on a quiet street in Red Deer. There is a park just up the street from them. The park has a ball diamond that is used for daily ball games and weekend tournaments. Carlos and Anita have decided to set up a lemonade stand near the ball diamond.

Anita's mother has agreed to supply the children with the ingredients for the lemonade, and Carlos's father has loaned the children a card table and chairs. There is a Quick-Mart store nearby.

- What type of economic system are Carlos and Anita involved in with their lemonade stand? (Capitalism, socialism, or communism.)



2. Are they involved in the public sector or the private sector?
3. Are there factors of competition in the location the children have selected? If so, list them.
4. The simple rule of supply and demand states the following:

If the demand for a product exceeds the supply, the price will go up; if the supply exceeds the demand for a product, the price will go down.

Since Carlos and Anita have received the ingredients for the lemonade at no cost, what factors will determine the price of the lemonade?

5. Using the information in Table 2.5, plot the supply and demand curve for the lemonade stand on the following graph.

TABLE 2.5
SUPPLY AND DEMAND—LEMONADE

Supply Table

Demand Table

**Number of
Glasses
Available**

**Price of Each
Glass
(in dollars)**

**Number of
Glasses
Wanted**

**Price of Each
Glass
(in dollars)**

50

0.50

100

0.55

55

0.55

90

0.60

60

0.60

80

0.65

65

0.65

70

0.70

70

0.70

60

0.75

75

0.75

50

0.80

80

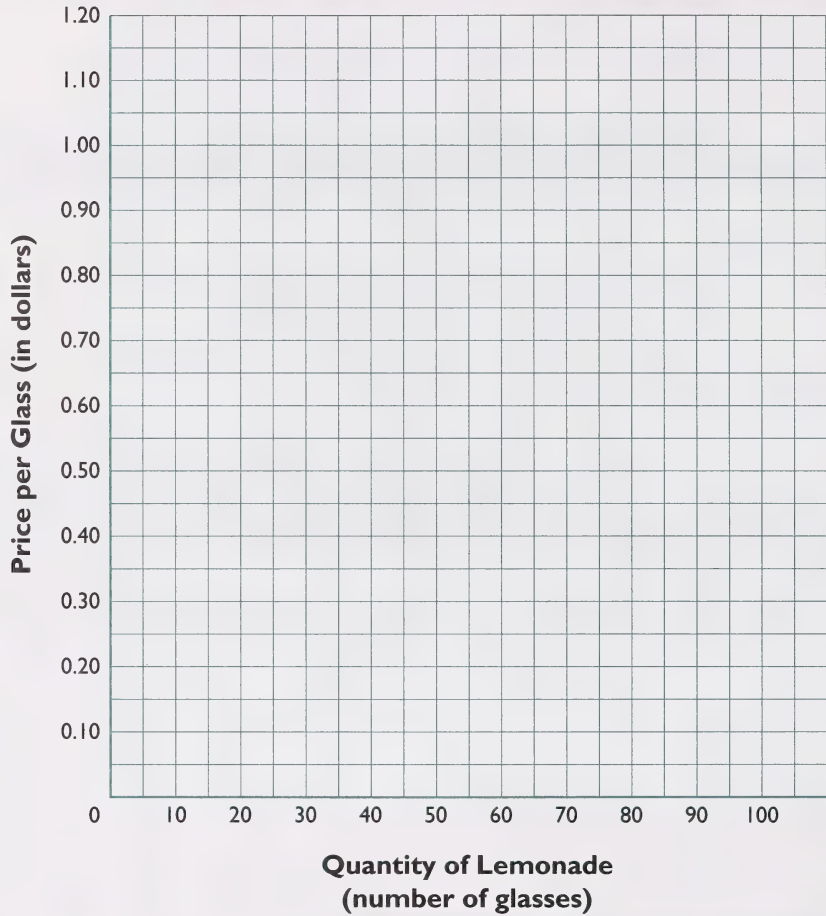
0.80

40

0.85



A SUPPLY AND DEMAND SCHEDULE OF LEMONADE



Compare your responses with those in the Appendix, Section 2: Extra Help.

Enrichment

Do **one** of the following activities.

Sandra and Mark are both part-time employees at a local greenhouse. Sandra is a cashier and Mark helps customers with the selection and care of plants, trees, and shrubs.



They have decided to operate their own landscaping business next spring. Mark will do the physical labour of landscaping, and Sandra will take care of the financial end of the business. They will hire Mark's two younger brothers to help with the landscaping.

Mark and Sandra feel that they won't require any outlay of cash to start their business, and both plan to continue working at the green house until their own business builds up. They plan on charging \$5 to plant any tree or shrub, including delivery.

1. Sandra and Mark have heard that you are taking courses in Financial Management and have come to you for advice. Based on the information provided, and using the reasons that businesses fail as a guideline, review the possible pitfalls and problems that Sandra and Mark may face.
2. Mark and Sandra are focussing on landscaping as a business. What other services could they offer in the same area to help expand their business? What other equipment might they require?
3. What kind of financial management information should Mark and Sandra be gathering about landscaping businesses to help them become successful?

Compare your responses with those in the Appendix, Section 2: Enrichment.

CONCLUSION

In this section you explored the effects of the economy on decision-making and planning. You learned about different kinds of economies, competition, supply and demand, and inflation and recession. You discovered the opportunities that lie ahead for Canadian business with the Pacific Rim countries. You also examined the issues that affect and create economic change.

The next section will provide you with the knowledge and skills to deal with banks and credit.

ASSIGNMENT

Turn to your Assignment Booklet and do the assignment for Section 2.



Financial Resources



JIM WHITMER PHOTOGRAPHY

KYLE had always wanted to open a fitness centre. He had selected a location across the street from a large hospital and had developed a business plan outlining all the factors necessary to make his business successful. He planned to name his business The Fit Factory. Kyle had a degree in recreational administration and knew many people who worked in the hospital. He had calculated his start-up costs, and was looking for financing. Because he had just graduated from university, Kyle had little free cash of his own. His family and friends were unable to assist him financially, and the local banks turned him down. Dejected, Kyle took employment in a local fitness club. One day while driving home from work, he noticed a new fitness centre across from the hospital, exactly where he had wanted to locate.

The one factor that kept Kyle from his dream was capital. He needed capital in order to begin, continue, and develop his business.

In this section you will examine the reasons for acquiring capital. You will discover the services offered by financial institutions and will learn how to use these services. You will also learn about credit and the insurance requirements for a small business or an individual.

ACTIVITY 1

Acquiring Capital

capital: includes the original investment by the owner, as well as the machinery, tools, buildings, and other items used in the production of goods and services



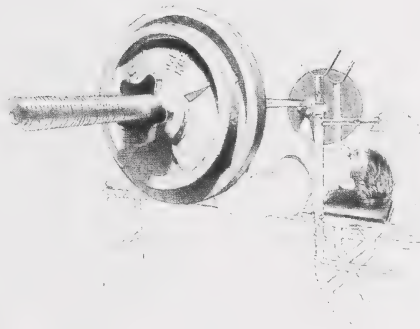
When the word **capital** is used, most people think of money; and, indeed, the words can be used to mean one another.

Capital is the foundation of a business, as it allows the owner to pay for salaries and materials necessary for the business. In Section 2 you learned about the three economic activities—production, distribution, and consumption—involved in business.

Capital is a part of each of these activities, and provides the “grease” to make the cycle work. In this activity you will look at the need to acquire capital.

In the section introduction you were introduced to Kyle and his dream to open a fitness centre. Kyle required two kinds of capital: fixed capital would be required to purchase exercise equipment and stock, renovate the premises, and generally open the doors for business; working capital would be required to pay salaries and utilities and generally keep the doors to the business open. It is important to note that anything that the company owns which has a dollar value forms the **assets** of the company.

assets: anything of value owned by a company. Assets can include furniture, vehicles, equipment, buildings, and accounts receivable.



collateral: an asset used as security for a loan. If the loan is not repaid, the lender takes the asset.

Kyle was unsuccessful at receiving financing from the local banks. They considered his venture too risky. In addition, Kyle did not have any **collateral** to offer in support of the loan. He had few personal possessions, no resources from friends or family, and no personal savings; however, Kyle did know professionals at the hospital who were interested in the fitness centre.

1. How could Kyle’s relationship with the professionals at the hospital have assisted him in fulfilling his dream?

2. The following chart lists the methods of acquiring capital. Record the advantages and disadvantages of each method. Some advantages and disadvantages have been listed for you.

Method of Acquiring Capital	Advantages	Disadvantages
borrowing from a bank		charge interest
equity financing	each contributor has a small risk, as opposed to one person losing everything	
personal savings		these savings may be needed in the future
partnership	another person to share the work and make decisions	

▼
equity financing:

borrowing from an individual in exchange for an interest in the business (taking a "silent partner")

▲

Compare your responses with those in the Appendix, Section 3: Activity 1.

This first activity introduced you to the concept of capital and the methods of acquiring capital.

The next activity explores financial institutions and the services they provide.

ACTIVITY 2

Financial Services

Stewart began a new position as a manager trainee at a fast food chain, Speedy Burger. Speedy Burger deposits each paycheck directly into the employee's bank account. Stewart was embarrassed to tell the personnel clerk that he did not have a bank account. "Get one!" was the prompt reply.



Stewart began checking with his friends. Cyra banks at a chartered bank, because it is close to where she lives. Her parents opened the account for her, and she has just stayed with that bank. Arnie has an account with a credit union because that is where his employer does business. Cecile banks at a trust company. They pay her a slightly higher interest rate on her savings. Stewart realized he needed more information before he could decide where to do his banking.

In this activity you will examine the services offered by financial institutions, both for an individual and a small business.

Financial Institutions

You are probably familiar with several different banking institutions, even though you may only deal with one particular institution.

Many people use one or more of the main financial institutions in Canada. The main institutions include the following:

- banks
- trust companies
- credit unions and caisses populaires

Differences among the financial institutions are few. Banks, trust companies, credit unions and caisses populaires, and other banking institutions all offer similar types of consumer services, both for individuals and small businesses. All offer chequing and savings accounts, loans, and mortgages.

▼
chartered bank: a financial institution that has a federal government license to operate
▲

Chartered Banks

The chartered banks are the only financial institutions incorporated under the Bank Act. The Bank Act, which was first passed in 1871, is reviewed by Parliament every ten years to allow the act to meet the changing needs of society and the business community. Some examples of chartered banks with which you may be familiar are the following:

- Bank of Montreal
- Bank of Nova Scotia
- Toronto-Dominion Bank
- Canadian Imperial Bank of Commerce
- Royal Bank of Canada



Chartered banks are members of the Canada Deposit Insurance Corporation (CDIC), which insures the deposit to a maximum of \$60 000 per depositor.

Alberta Treasury Branches operate under the Treasury Branches Act and do not belong to CDIC. The province of Alberta unconditionally guarantees the principal and interest of all deposits in Alberta Treasury Branches.

The main advantage of chartered banks is that they are organized in such a way that money can be easily and quickly transferred because there are branches across Canada.

▼
trust company:
a financial institution that engages in the normal activities of a chartered bank and can function as both a corporate and personal trustee

Trust Companies

Trust companies provide many of the banking services (savings, chequing, lending money) provided by banks. In addition to offering a wide range of financial services, trust companies can also act as trustees. This means that they can manage money entrusted by individuals and corporations. For example, trust companies manage estates left by wills, pension funds, and mutual funds. Trust companies may be chartered by federal or provincial legislation, and therefore are able to offer the same insurance protection to depositors as do chartered banks.



▲
credit union: *a cooperative association that provides banking services to its members*

Credit Unions and Caisses Populaires

Credit unions and caisses populaires are non-profit institutions that are owned by their memberships. Each credit union is governed by a board of directors who are elected by the membership. A membership in a community credit union is available to anyone willing to purchase a share for a small fee. Other credit unions require that their members belong to a specific union, professional association, company, or ethnic or religious group. Caisses populaires are, in most cases, organized along parish boundaries. Credit unions fall under provincial regulations in Canada, and deposits in Alberta are guaranteed by the Credit Union Stabilization Corporation, which is backed by the Alberta government.

Consumer Loan Companies

These companies are either federally or provincially incorporated and specialize in direct lending to the public. An example might be the Household Finance company. Consumer loan companies are used when credit cannot be obtained elsewhere, and they generally charge a higher rate of interest. You cannot do your regular banking at a consumer loan company, as they do not offer deposit and chequing services.

1. Complete the following table from the information you have just read.

FINANCIAL INSTITUTIONS		
Type of Financial Institution	Example in Alberta	Key Feature
Chartered bank		
Trust company		
Credit union or caisses populaires		
Consumer loan companies		

Services Offered by Financial Institutions

Financial institutions offer many different banking services to individuals and small businesses.

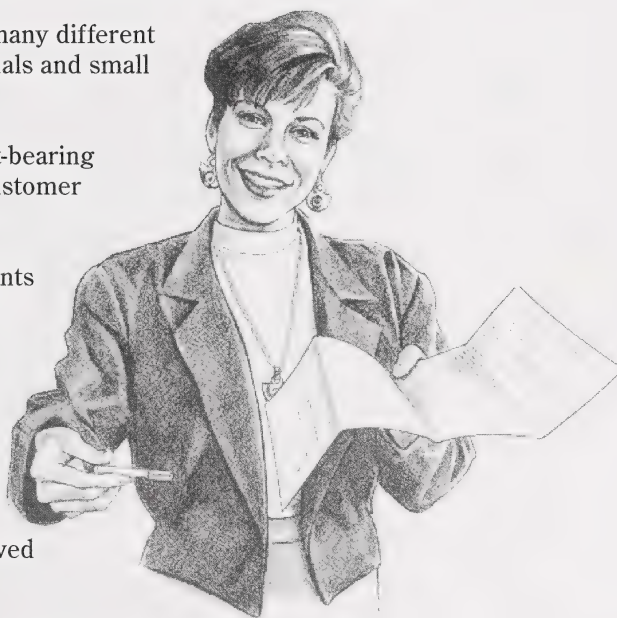
savings accounts: interest-bearing accounts that provide the customer with security for their funds

chequing accounts: accounts that allow the client to write cheques and receive an accurate accounting of the balance in the account

loans: Short-term, long-term, mortgages, home improvement, and small business loans are all approved by banks.

direct deposit: The bank receives your monthly cheque directly from your employer or the government and places it in your account.

pre-authorized payments: You may have the bank automatically make payments each month to institutions with which you deal. For example, your monthly mortgage payment or insurance payment can be deducted from your account each month and submitted directly to the company.





automated teller machines: Automated tellers allow you to withdraw money from your account from anywhere in the country at any time of day or night. You may also use the ATM to pay bills, deposit funds, and transfer between accounts. You require a specially encoded plastic card and a personal identification number (PIN). After you insert the card into the machine's slot, you enter your PIN through a push-button panel, and the financial institution is open for business!

safety deposit boxes: For a small fee, you can rent a safety-deposit box. These boxes vary in size and are used to store important documents and valuables, like birth certificates, coins, jewellery, insurance policies, stocks, and bonds. Two keys are required to open a safety-deposit box. One key stays at the bank and the other is your key.

money orders: Money orders purchased from a financial institution are completed in triplicate. One copy is sent for payment. Another is kept by the sender as a receipt, and the last copy is kept by the financial institution. The issuer fills out the amount of the money order and the sender completes the rest, which involves filling in the name of the payee, the date, and the sender's name and address.

▼ **traveller's**

cheques: drafts purchased from a financial institution, signed by the purchaser at the time of purchase and again at the time of cashing as a safeguard against forgery

overdraft

protection:

occurs when a financial institution lends a client money to cover a cheque because there are not enough funds in the account to cover the cheque

line of credit:

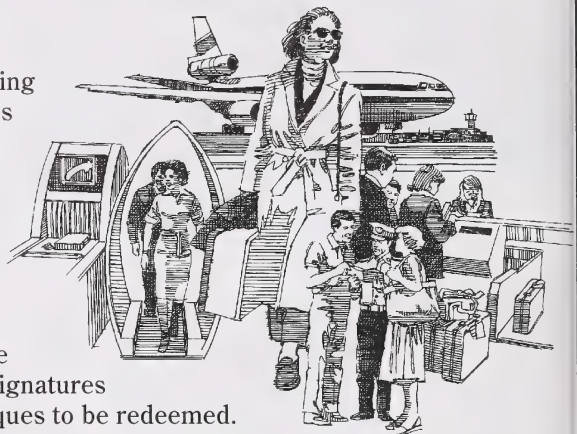
pre-arranged credit extended by the financial institution to the individual or small business

traveller's cheques: By using traveller's cheques, you do not encounter the problems of carrying cash or cashing personal cheques in unknown places. Traveller's cheques require your signature in two places. You must first sign each one in the presence of the person selling them to you. When you cash them, you are required to sign them again—this time in the presence of the person cashing them. The two signatures must match in order for the cheques to be redeemed.

Because it is difficult to alter or forge traveller's cheques, they are accepted almost everywhere in the world. They are also easily replaced if stolen or lost. The two major suppliers of traveller's cheques in Canada are American Express and Thomas Cook. They may also be purchased through your bank branch.

overdraft protection: Sometimes a cheque is written for more money than is presently in an account and the account becomes overdrawn. Most financial institutions offer a special service called overdraft protection. This allows depositors to write cheques in excess of their account balance, up to a maximum amount. The overdrawn amount must be paid back within a short period of time, and interest is charged on the overdrawn amount.

line of credit: A line of credit is similar to overdraft protection, and is usually extended to small businesses to cover shortages in cash at particular times in the month. This line of credit is arranged in advance and an interest rate is agreed upon.



certified cheques: A certified cheque is often used for large purchases, such as a down payment on a house. You write out the cheque and take it to your financial institution where they “certify” that the funds are truly in your account and mark the cheque *Certified*. The amount of the cheque is then deducted from the account and placed in a special account until the payment has been made.

debit cards: The debit card allows you to purchase goods and services with money drawn directly from your account. There is no cheque to write, the funds are immediately taken from your account, and it saves everyone time and effort.

credit cards: Some financial institutions offer credit cards such as Visa, MasterCard, and American Express. Once your application for credit has been approved, you receive the card. It will specify a spending limit, and all amounts not paid by the end of the month will carry interest charges.

specialized services: Specialized services are available in most financial institutions for hearing and visually impaired clients, as well as clients that lack mobility.

2. John is a new business owner. He suffers from the problems shown in the following table.

Help John solve his problems by suggesting what service he requires from his financial institution.

Problem	Service
John's business is open late, but his bank is already closed when he gets there to make a deposit.	
Sometimes John does not have quite enough money in his account at the end of the month to meet the payroll requirements.	
John frequently travels out of Canada on business, and hates to carry large sums of cash with him.	
Now that he is so busy, John frequently forgets to make his monthly mortgage payment on his property.	
John has many valuable papers in his office, including insurance policies. Are his documents safe?	

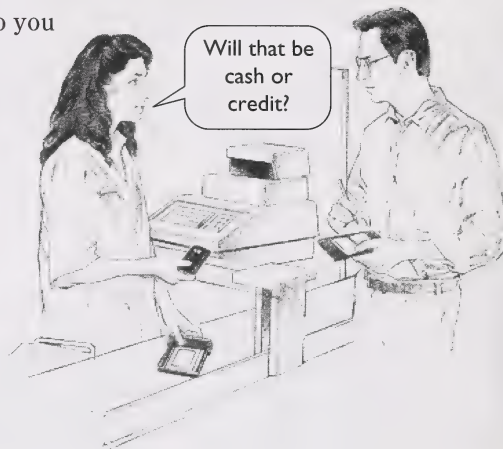
Compare your responses with those in the Appendix, Section 3: Activity 2.

Activity 2 examined the financial institutions available, the services they offer, and a brief introduction to their use. Activity 3 will identify credit sources and problems with credit.

ACTIVITY 3

Credit Sources and Problems with Credit

What is credit? How do you get it? Do you really want it? These are some of the questions that will be answered in this activity.



credit: *a way to purchase something now, but pay for it at a later date*

instalments: *payments made to reduce an existing debt according to a specified repayment plan*

Credit enables consumers to purchase goods and services with the understanding that they will be paid for at a later date, either in a lump sum payment or by instalments.

Sources of Credit

There are many businesses and institutions that will lend money. Remember that when you buy goods or services on credit, you are in effect borrowing money. Lending money can be a very profitable venture for the lender; consequently, the competition to attract clients is great.



How much do you know about obtaining credit? There are many sources of credit available to consumers.

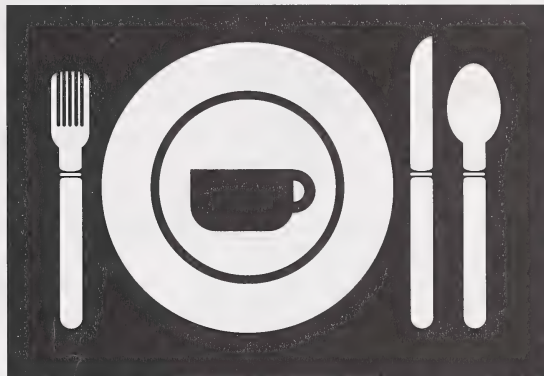
1. List as many sources of credit as you can.

Compare your responses with those in the Appendix, Section 3: Activity 3.

Now take a closer look at the sources of credit available and see how they compare to each other.

Retail or Service Businesses

Retail or services businesses, such as stores, gas stations, and restaurants, are a source of credit for the purchase of goods and services. Although they do not actually lend cash, they lend the use of cash. Most stores either accept major credit cards or provide their own credit cards to customers.



2. List three large department stores that offer their own credit cards.
3. Some large department stores offer “points” or credits each time you use their credit card. What would you say is the reason that stores offer these points?

Compare your responses with those in the Appendix, Section 3: Activity 3.

Banks, Trust Companies, and Credit Unions

A bank can be found on almost any street corner in a large city. Its primary function is to lend money. Banks draw their main source of income from the interest earned by lending money.

Trust companies are very similar to banks and compete directly with them for clients. Credit unions are also very competitive with banks and trust companies; however, credit unions require you to purchase a membership in the form of shares. The benefit of being a member of a credit union is that company profits are returned to its members in the form of **dividends**. Since some money is returned to them, consumers may find that dealing with a credit union can save them money in the long run.

Consumer Loan Companies

Consumer loan companies provide yet another alternative to consumers who wish to borrow money. They tend to charge higher interest rates, as they tend to lend to higher-risk clients. Consumer loan companies are also in the business of handling financing packages that are offered by various businesses. If you purchase a car from a dealer using the financing package offered by the dealership, the financing would be administered by a consumer loan company.

▼
dividends:
payments to
shareholders as a
share of the
company's profits
▲

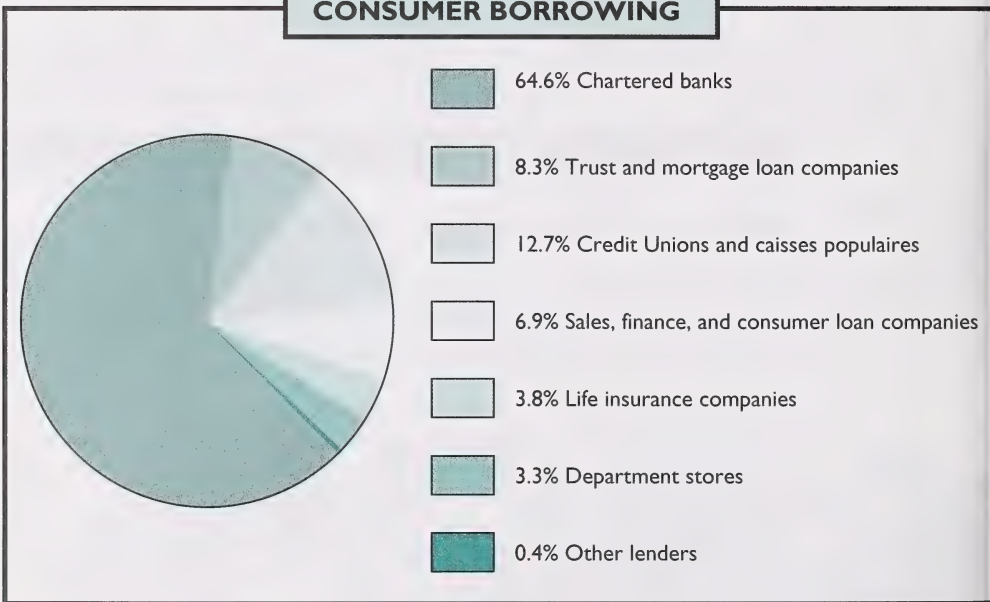
Life Insurance Companies

You may find this surprising, but some life insurance policies are designed to have a cash-value feature. In other words, a portion of the premium paid by the customer goes toward insurance coverage, and the rest accumulates like a bank account. This accumulated money is then used to make cash loans and mortgage loans.

Look at Table 3.1. It shows the sources of consumer credit. In this case, consumer credit is defined as credit extended to individuals chiefly for financing personal consumption expenditures. Figures exclude residential mortgages, home improvement loans, and secured bank loans. By looking at Table 3.1, you can see that the overall majority of consumers still borrow from chartered banks in Canada.

Consumer Borrowing

TABLE 3.1
CONSUMER BORROWING



▼
credit rating: a personal financial profile that determines your credit worth. It indicates whether you are a good credit risk and reflects your debt repayment records.

Obtaining a Credit Rating

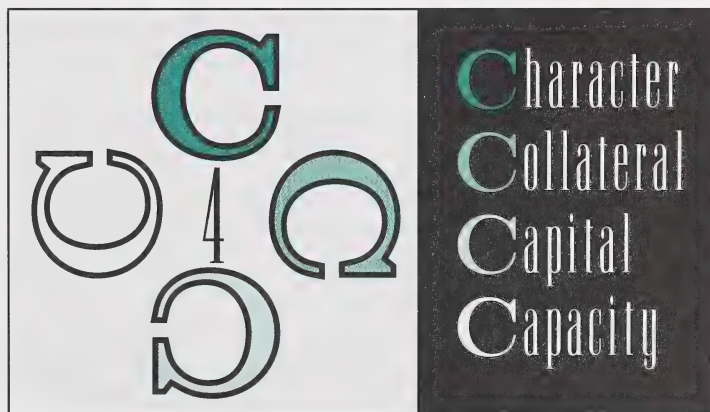
A **credit rating** indicates how well you have handled previous credit commitments and how you approach your financial affairs. In other words, it suggests whether you are a good credit risk or not. You establish a credit rating by using credit. Your financial dealings in terms of using credit are recorded with a credit bureau.

When you apply for credit or a loan, the credit grantor will most likely check your file at the credit bureau. You should have no problem receiving credit if the information on file at the credit bureau is favourable. It is a good idea to check with the credit bureau to be sure the information about you is correct. Any errors can affect your chances of obtaining credit, a loan, or sometimes even a job.



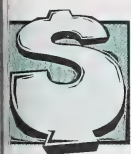
Once credit is obtained, your credit rating can be established and protected by paying all debts and bills promptly and according to the terms of signed credit contracts.

The criteria for judging good credit risks are often referred to as the four C's of credit: character, capacity, collateral, and capital.



Character is determined by looking at your past history of financial dealings. Have you paid your bills and have you paid on time? Character is your honesty, integrity, and willingness to meet your financial obligations. This information can be obtained from a **credit bureau**, which supplies information to institutions for a fee.

Capacity is your ability to repay the borrowed amount. It is based on your employment and debts you may have incurred.



Ethics



credit bureau:
business that
provides lenders
with information
about the credit
history of
prospective
borrowers for a
fee

Capital measures your financial worth and is determined by whether you own a home, a car, furniture, or if you have savings, life insurance, investments, or stocks.

Collateral is assets like a house, car, stocks, insurance, and bonds that are used to secure a loan. Collateral serves as security to guarantee the loan. If you do not pay the loan, the financial institution has a claim on the item you used as collateral.

Advantages and Disadvantages of Credit

At first glance, credit seems like a wonderful system: buy now, pay later. Although this is the way credit works, it does have a cost attached to it. This kind of service is generally not free. When you purchase something on credit, it has the effect of a business lending you money. When you borrow money, be it from a bank or a business, you are generally required to pay **interest** on the amount that you borrow or **charge**.

▼
interest: the cost or fee incurred when borrowing money

▲
charge: to incur a debt by buying on credit

4. Advantages and disadvantages of credit are discussed on the next few pages. From the following list, identify whether each statement identifies an advantage or a disadvantage of using credit. In some cases, the statement may not identify either an advantage or a disadvantage of using credit. Mark **A** for an advantage, **D** for a disadvantage, and **S** for a neutral statement (neither an advantage or a disadvantage).

- _____ a. Sonja really likes to use her credit card because she can buy something on sale when she does not have the cash readily available.
- _____ b. Langston has accepted the fact that buying on credit results in interest charges on his purchases.
- _____ c. Felix believes that using his credit card gives him status: "People will really think I am somebody if I have a credit card."
- _____ d. "I need to buy a new car, but I just can't seem to save money," laments Melanie. "If I buy it on credit, I have to make the payments. In a way, it forces me to save."
- _____ e. Leisel remembers the time she was travelling to Vancouver and her car broke down. Using her credit card enabled Leisel to have the car repaired immediately, which was something that she could not have afforded otherwise.
- _____ f. Todd firmly believes in making all of his purchases with cash. He just can't understand why people seem to buy so many things they can't afford. "If you don't have the cash in the bank, then forget it!"
- _____ g. "Purchasing our home on credit was essential," says Daniella. "How can anyone afford to make such a large purchase using strictly cash?"

- _____ h. "I love the freedom that being able to buy on credit provides," says Justin, "but I just can't seem to stop myself from buying things I really don't need. I just can't help myself."

Compare your responses with those in the Appendix, Section 3: Activity 3.

Advantages to Using Credit

If you were able to correctly identify most of the previous statements, then you already have a good insight into some of the advantages and disadvantages of using credit. Now take a closer look at the advantages.

Convenience

More and more consumers are finding that it is simply safer and easier to use credit for both routine and specialty purchases. In some cases, it is almost impossible to receive service without a credit card. For example, if you wish to make a reservation in a major hotel, you will likely be required to provide a credit card number to hold your reservation. Once you arrive at the hotel, you will be asked for a credit card imprint so that your hotel charges can be charged to an account. If you do not have a credit card, you may be required to pay for your room in advance.

The need to carry large amounts of cash is diminishing, which lessens the chance of having money lost or stolen. This is particularly helpful to travellers. There is a general trend of people carrying smaller amounts of cash. Automated teller machines (also called ATM's or bank cash machines) are being used more and more. Besides allowing automatic bank deposits and the transfer of funds, these machines are also a source of consumer credit when the cash withdrawal function is used.

Buying on credit enables the consumer to take advantage of sales on goods and services that are of a temporary nature. If used wisely, buying on credit can save the consumer money.

For expensive specialty items such as cars, recreational vehicles, and furniture, the consumer may find it more convenient to pay in instalments. This helps to lessen the immediate burden of making a major purchase.



¹ Canadian Speakers' & Writers' Service Ltd. for the cartoon by Ben Wicks. Reprinted by permission of the Canadian Speakers' & Writers' Service Ltd.

Emergencies

Consumers have some peace of mind in knowing that paying for unexpected emergencies, such as repairs to a car or the purchase of major appliances, can be made without draining their bank accounts. The financial burden becomes easier to carry if these costs can be divided over time. Unexpected travel due to an emergency can also be handled.



Forced Savings

Many consumers have a hard time saving money to make a major purchase at a later date. The money is often spent on other things and never makes it to the savings account. If it does get deposited, it gets withdrawn for one reason or another. These individuals usually find it easier to make the purchase using credit, and then make the required payments. When the amount becomes a payment instead of a saving, individuals know there is no flexibility, and the payments can be made on a regular basis. The outcome is that individuals can experience a higher standard of living than they would if they tried to save for everything first.

Large Expenditures

These kinds of purchases are usually items such as houses or land that are simply too costly to pay for with cash. Most people would find it difficult, if not impossible, to save enough money to make a purchase of this size. Purchases of this kind are usually acquired through a **mortgage**. The house or property becomes collateral for the loan. Therefore, failure to make the payments would result in the sale or loss of the property.

▼
mortgage: a loan given for the purchase of buildings or property with the property used as security for the loan



In review, there are four advantages to using credit:

- convenience
- emergencies
- forced savings
- large expenditures

Using what you have learned about the advantages of using credit, answer the following questions.

5. What is the primary convenience of using credit?
6. Give four examples of how using credit may be beneficial.
7. Explain how people who have trouble saving money are able to take advantage of credit purchases.

8. Why does having access to credit give some consumers peace of mind?
9. What do you think would happen if people were unable to use credit to make large expenditures, such as purchasing a house?

Compare your responses with those in the Appendix, Section 3: Activity 3.

Disadvantages to Using Credit

Using credit to purchase goods and services does have its advantages, but it has disadvantages as well.

Interest Costs

When you buy something on credit, you have to pay the lender a fee for the use of that money. This is known as interest.

When a credit purchase is being made, the consumer must weigh the financial advantage of buying something on sale, knowing that the final cost (including interest) may be higher than the regular price. In some instances, interest is not charged until after a designated period of time (usually thirty days). In this case, a consumer could take advantage of making a credit purchase without paying interest, provided the money is available at the end of that time. Interest costs are generally expressed in terms of percentage per year. Consumer interest rates are often high and may fluctuate depending on the type of loan and where the loan was acquired. Some interest rates are guaranteed, whereas other are designed to fluctuate with the current bank rates.



Impulse Buying

Having access to credit sometimes gives people the illusion that they have more money at their disposal than they actually do. For many people, using a credit card instead of cash seems less like spending money.

The consequence is that some consumers purchase things they don't really need and can't afford—purchases they would probably not make if they had to pay with cash. This is known as buying on impulse. Individuals may run into difficulty handling their debts if they are not able to control their impulse buying. In addition, the amount of money they must spend on interest creates an even greater debt.



There are essentially two disadvantages to using credit: interest costs and impulse buying. Using what you have learned about the disadvantages of credit, answer the following questions.

10. Why is it important for a consumer to consider interest costs when making a credit purchase?
11. What is the problem with impulse buying?
12. You have already categorized the following statements as disadvantages, advantages, or neutral statements. Now you will identify exactly what advantage or disadvantage is being illustrated in each.

If the statement is an advantage, mark it as follows:

A-1 for Convenience	A-3 for Forced Savings
A-2 for Emergencies	A-4 for Large Expenditures

If the statement is a disadvantage, mark it as follows:

D-1 for Interest Costs	D-2 for Impulse Buying
-------------------------------	-------------------------------

Mark **S** for statement if none of the other categories apply.

- _____ a. Sonja really likes to use her credit card because she can buy something on sale when she does not have the cash readily available.
- _____ b. Langston has accepted the fact that buying on credit results in interest charges on his purchases.
- _____ c. Felix believes that using his credit card gives him status: "People will really think I am somebody if I have a credit card."
- _____ d. "I need to buy a new car, but I just can't seem to save money," laments Melanie. "If I buy it on credit, I have to make the payments. In a way, it forces me to save."
- _____ e. Leisel remembers the time she was travelling to Vancouver and her car broke down. Using her credit card enabled Leisel to have the car repaired immediately, which was something that she could not have afforded otherwise.
- _____ f. Todd firmly believes in making all of his purchase with cash. He just can't understand why people seem to buy so many things they can't afford. "If you don't have the cash in the bank, then forget it!"

- _____ g. "Purchasing our home on credit was essential," says Daniella. "How can anyone afford to make such a large purchase using strictly cash?"
- _____ h. "I love the freedom that being able to buy on credit provides," says Justin, "but I just can't seem to stop myself from buying things I really don't need. I just can't help myself."

Compare your responses with those in the Appendix, Section 3: Activity 3.

Activity 3 reviewed the advantages and disadvantages of credit, along with the four C's of credit. You should now be familiar with the role of banks in granting credit. Activity 4 introduces you to skills in managing bank accounts.

ACTIVITY 4

Skills in Managing Bank Accounts



COURTESY OF SCOTIABANK

Once you have selected a financial institution like a bank, trust company, credit union, or credit card company, you must also develop good banking skills. In this activity you will learn about current accounts, savings accounts, and personal chequing accounts. You will also learn how to use a chequing account. The kind of account that is most suitable for any person or business will depend upon the number and nature of business transactions. Each kind of account has its advantages and limitations.



true chequing account: a chequing account that pays no interest, but provides cancelled cheques and a monthly financial statement

current account: a chequing account used primarily for writing many cheques



True Chequing Accounts

The money in a **true chequing account** generally does not earn interest, since chequing accounts are intended to pay bills rather than be used for saving money. Service charges are charged for cheques, and customers receive a statement along with the cancelled cheques each month.

Current Accounts

Current accounts are used by businesses, clubs, or other organizations and individuals who issue a large number of cheques. The bank provides a monthly statement and returns the cancelled cheques to the customer if requested. No interest is paid on deposits, and a service charge may be levied for cheques and deposits if the minimum monthly balance in the account falls below a specific amount. A service charge may also be made if the number of cheques is very large.

The advantages of this type of account are that cancelled cheques are returned to the drawer, and a monthly statement which shows all entries is provided.

Opening a Chequing Account

When you open a chequing account, the bank will require a copy of your signature the way it will be written on your cheques. You will receive a cheque record booklet (cheque register) to record any transactions (deposits, withdrawals, transfers) and your current balance. You will also receive a set of blank cheques. The blank cheques you receive will be similar to the following sample.

Erika Zoerb Box 99 Sometown, Alberta T0B 1Y2	236
PAY TO THE ORDER OF	_____ 19
	\$ _____
	DOLLARS
THE HOME SHORES BANK SOMETOWN, ALBERTA T0A 2Z3	100
... 12345 ...678999: 999. 00099 .	

1. Why is it important to keep your personalized cheques in a safe place?
2. What is an advantage of writing a cheque instead of paying cash?
3. What is the difference between a payee and a drawee?

Compare your responses with those in the Appendix, Section 3: Activity 4.

Writing a Cheque

There are some simple rules for writing a cheque. These rules prevent banks and consumers from suffering considerable losses due to altered cheques and forgeries. Follow these rules when writing a cheque:



- Always use a pen, typewriter, or computer. Never use pencil because it can easily be erased and sometimes is not as legible as pen or ink.
- Number cheques consecutively to help you keep track of cheques issued and paid out by the bank. Personalized cheques are already numbered, and they should be used in order.
- All cheques must be dated by month, day, and year.
- Sometimes it is necessary to issue **post-dated cheques**, but usually it is best to date the cheque with the date on which it is written. Financial institutions will not accept a cheque until on or after the date written on it. On the other hand, a cheque more than six months old will not be accepted either—it is called a **stale-dated cheque**.
- The words *Pay to the Order of* appear on all cheques. This is where you write the name of the person or business to whom you are writing the cheque. Start writing the name as far left as possible, and fill in the remaining blank space after the words with a horizontal line. This prevents additions and alterations. Always be sure to spell the payee's name correctly. This eliminates problems when cashing the cheque.
- The amount payable written in figures should be as close as possible to the dollar sign to prevent other numbers from being entered. Never provide an opportunity for a dishonest person to increase the amount of the cheque by adding numbers to blank spaces.
- The amount payable written in figures should agree with the amount payable written in words. Always double check to be sure the two are the same amount. If the two do not agree, the amount written in words is the one that will be paid out by the bank.
- Any errors on the cheque should be crossed out neatly with a single line with the correction written in above. Write your initials near the correction. If you make an error, you could also destroy the cheque and write another.



▼
post-dated cheque: a cheque with a future date on it

stale-dated cheque: a cheque that is more than six months old
▲



drawer: *the person or business who writes a cheque*

blank cheque: *a cheque with no information on it*



- Sign cheques on the bottom right-hand line of a cheque in exactly the same way as your signature is written on the signature card at the bank. The person signing the cheque is the **drawer**.
- Never sign a **blank cheque**. A blank cheque has no information on it except your signature, which allows anyone to fill in whatever amount he or she pleases, along with his or her own name as the payee.

The following cheque illustrates what parts must be completed when writing a cheque.



magnetic ink code: *an electronic method of processing cheques. It uses the three sets of digits located on the lower left-hand corner of the cheque.*

transit number: *the first set of digits identifying the branch*

account number: *the customer's identification number*

payee: *the person or business to whom a cheque is made payable*

drawee: *the financial institution on which a cheque is drawn*



On the bottom left-hand corner of a cheque are three sets of numbers printed in **magnetic ink code**. This code makes it possible to quickly process cheques with a computer. The first set of numbers, called **transit numbers**, identifies the branch. The second set of numbers identifies the financial institution. The last set of numbers is your **account number**.

Cheques generally provide space for the date, the cheque number, the amount, the name of the **payee**, and your signature. The payee's bank will determine from which institution the money is coming. The name of the institution is the **drawee**. Personalized cheques generally come with your name and address printed on the top left-hand corner of each cheque. When ordering personalized cheques, you pay a small fee and have several cheque designs from which to choose.

4. Marek's son plays hockey, and part of the team commitment is to work bingos. Marek has been asked to provide the hockey club with two post-dated cheques that the club will hold. Once the bingos are worked, Marek will get the cheques back, uncashed. When Marek is filling out the cheques, he accidentally dates the cheques with today's date. "That's okay," said the hockey registration clerk, "I will just hold the cheques until after the bingo." What is wrong with this process?
5. What should you do if you make a mistake when writing a cheque?

Compare your responses with those in the Appendix, Section 3: Activity 4.

6. You are Erika Zoerb. You have to write cheques to the following businesses and individuals:

- Otterdahl Grocery for \$39.57
- Henrik Van Oerle for \$105.68
- Image Cable Company for \$40.36

Correctly fill out the following three blank cheques, one for each transaction.

Erika Zoerb 236
Box 99
Sometown, Alberta
T0B 1Y2

PAY TO 19
THE ORDER OF \$

DOLLARS
100

THE HOME SHORES BANK
SOMETOWN, ALBERTA
T0A 2Z3

||...||: 12345 | ...678999: 999. ||00099||.

Erika Zoerb 237
Box 99
Sometown, Alberta
T0B 1Y2

PAY TO 19
THE ORDER OF \$

DOLLARS
100

THE HOME SHORES BANK
SOMETOWN, ALBERTA
T0A 2Z3

||...||: 12345 | ...678999: 999. ||00099||.

Erika Zoerb 238
Box 99
Sometown, Alberta
T0B 1Y2

PAY TO 19
THE ORDER OF \$

DOLLARS
100

THE HOME SHORES BANK
SOMETOWN, ALBERTA
T0A 2Z3

||...||: 12345 | ...678999: 999. ||00099||.

7. Read each of the following questions and study the cheque written for each case. Find the errors on each cheque.
- a. Cheque 105. Today is May 20, 1995. You are a clerk at the Shop Rite Grocery. Sheila Payne has just handed you a cheque to pay for groceries. The bill comes to \$23.89. What is wrong with this cheque?

105

Sheila Payne
1000 Mainville Rd.
Castor, Alberta
T0T 1Y0

PAY TO
THE ORDER OF Shop Rite Grocery May 30, 1995 \$ 23.98

Twenty three 89 DOLLARS
100

THE HOME SHORES BANK
CASTOR, ALBERTA
T0T 1Z2

Sheila Payne

||...||: 56789 | |...: 568349: 707. || 124788 ||.

- b. Cheque 106. Today is January 5, 1995. Your name is Marco Umiglio. You have written a cheque to Acme Management Service to pay your rent. The collection agency refuses to accept the cheque. What is wrong with the cheque?

106

Marco Umiglio
1400 Sunny Way
Red Deer, Alberta
T1Z 707

PAY TO
THE ORDER OF Acme Management Service Jan 5, 1995 \$ 300.⁰⁰

Three Hundred 00 DOLLARS
100

THE HOME SHORES BANK
RED DEER, ALBERTA
T2Y 8P8

Marco Umiglio

||...||: 77889 | |...: 678009: 979. || 00088 ||.

Compare your responses with those in the Appendix, Section 3: Activity 4.

Making a Deposit to a Chequing Account

The deposit slip used for a chequing account is usually the same as the deposit slip used for a savings account. Some deposit slips have detachable stubs that are retained for your records. You may also need to indicate that you are making a deposit into a chequing account rather than a savings account. The following items must be filled out on a deposit slip:

- your account type (chequing, savings)
- the date
- your account number
- your name (printed)
- a list of deposited money (cheques, paper money, coins)
- the subtotal of money
- the amount of cash you wish to withdraw
- your signature for the cash withdrawal
- the total amount of the deposit
- your initials and the teller's initials

A completed deposit slip is shown.

THE HOME SHORES BANK		<input checked="" type="checkbox"/> Chequing Account Deposit	CURRENCY	20	00
SOMETOWN, ALBERTA		<input type="checkbox"/> Savings Account Deposit	COIN	7	00
T0A 2Z3			CHEQUES OR COUPONS (List on Reverse if Necessary)	15	00
DATE <i>January 28, 1995</i>		ACCOUNT NUMBER <i>05074</i>			
DEPOSITED BY <i>Su Chong Lin</i>					
DEPOSITOR <i>EL</i>	TELLER <i>MP</i>	CUSTOMER'S SIGNATURE <i>Su Chong Lin</i>	SUBTOTAL	42	00
			LESS Cash Received	0	0
			NET DEPOSIT	42	00

If you have personalized cheques, you may receive personalized deposit slips that are imprinted with your name and the appropriate magnetic ink code.

Making a Withdrawal from a Chequing Account

A cheque is used to withdraw cash from a chequing account. To withdraw cash from the chequing account, you make the cheque payable to cash. Since cheques payable to cash can be cashed by anyone, it is a good idea to cash them immediately, before they get lost or misplaced. You will have to sign the cheque on the back when cashing it.

Erika Zoerb Box 99 Sometown, Alberta T0B 1Y2	236
PAY TO THE ORDER OF <i>Cash</i>	<i>June 1</i> 19 <i>95</i>
<i>One hundred fifty eight</i>	\$ <i>158.34</i>
	<i>34</i> DOLLARS
THE HOME SHORES BANK SOMETOWN, ALBERTA T0A 2Z3	<i>Erika Zoerb</i>
... 12345 ... 678999: 999. 00099 .	

You can also withdraw money from a chequing account by making the cheque payable to yourself.

Erika Zoerb
Box 99
Sometown, Alberta
T0B 1Y2

236

June 1, 1995

PAY TO
THE ORDER OF Erika Zoerb \$ 158.34

One hundred fifty eight — 34 DOLLARS
100

THE HOME SHORES BANK
SOMETOWN, ALBERTA
T0A 2Z3

Erika Zoerb

||...||: 12345 | ...678999: 999. ||00099||.

Stopping Payment on a Cheque

stop payment:
*a formal written
request to a
financial
institution to halt
the processing of a
cheque*

If you do not want a certain cheque paid from your account because it is lost, stolen, or has an error, you can make a **stop payment** on the cheque.

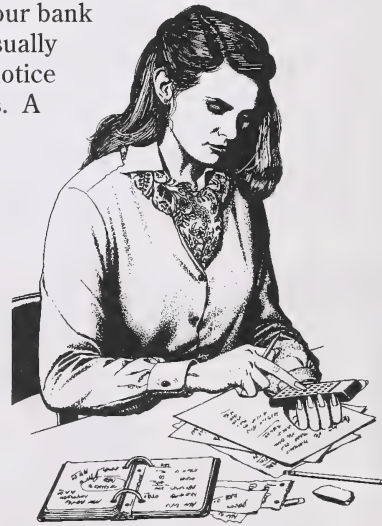
You must first telephone the financial institution and give them the details of the cheque, such as the date of the cheque, the number of the cheque, the payee's name, and the amount of the cheque. This does not stop the payment, but delays it until you fill out the proper stop-payment form at the financial institution. A fee is usually charged for this service.

Recording Cheques and Deposits

The most effective method of keeping track of your bank balance is to use the cheque register, which is usually included as part of your cheque book. You will notice that the cheque register has three main columns. A cheque drawn on your account reduces your balance; a deposit increases the balance. Maintaining a cheque register means that you know how much is in your bank account at all times.

When using a cheque register, remember to do the following:

- record your cheques and deposits immediately before you make them
- keep the running total up to date—add deposits and subtract cheques to get your balance



Reconciling a Bank Statement

As cheques are written and deposits are made, you should keep track of the changing balance in the cheque register. Your financial institution also keeps a record of your balance by adding deposits and deducting cheques as they clear your account.

Every month you will be issued an account statement. The account statement will include the following:

- the account balance at the beginning of the month
- the deposits made during the month and automatic deposits (**credits**)
- deductions for cheques paid during the month and automatic withdrawals (**debits**)
- the service charge, if any, plus any other miscellaneous charges
- any interest earned by the account
- the account balance at the end of the period

When you receive your cancelled cheques and monthly statement, you should balance them with your cheque register. This is called **reconciling a bank statement**.

The back of your monthly statement will probably provide a reconciliation form and instructions for reconciling your bank statement.

▼
credits: entries on the right-hand side of the account statement. Credits constitute additions to the bank balance.

debits: entries on the left-hand side of the account statement. Debits are subtracted from the bank balance.

reconciling a bank statement: balancing the monthly statement with your personal records (cheque register)

Bank Account Reconciliation

This form is provided to help you balance your bank statements.

Instructions

1. Mark off the paid cheques against the records in your cheque book.
2. List any cheques shown in your cheque book that have not been paid by the bank (including those issued in a previous statement period).
3. Bring your cheque book record up to date by entering any cheques, service charges, or other debit items which you have not already recorded.
4. Mark off all deposits and other credit items shown on the statement against those recorded in your cheque book. Enter any deposits in your cheque book you might have failed to record.
5. List any deposits you have made which do not appear on the statement.
6. Follow the directions shown on the reconciliation. The final total should agree with the balance in your cheque book.

Reconciliation

Final balance shown on this statement	\$ _____
Add deposits made which do not appear on this statement (outstanding deposits)	

	\$ _____
Subtotal	\$ _____
Deduct the total of any outstanding cheques:	

	\$ _____
Total: This total should agree with your cheque book balance	\$ _____
Cheque Book Balance	\$ _____
Less	
Service Charges _____	
Cheques _____	\$ _____
Adjusted Cheque Book Balance	\$ _____
Difference (if any)	\$ _____

If the two balances do not agree

1. check the additions, subtractions, and corrections on the reconciliation and in your cheque book
2. verify the balance forwarded from page to page of your cheque book

▼
outstanding cheques:
cheques that have not been paid by the bank

outstanding deposits:
deposits that do not appear on your bank statement, but which you have made



The final balance shown on the statement will usually differ from that on the cheque register. This does not mean that an error has been made. The statement balance might not agree with the cheque register balance for some of the following reasons:

- **outstanding cheques:** Cheques that have been written and subtracted from the depositor's cheque register but have not yet been paid by the bank are called outstanding cheques. When cheques are outstanding, the statement shows a higher balance than the cheque register.
- **outstanding deposits:** Deposits that have been made and added to the depositor's cheque register but have not been listed on the monthly statement are called outstanding deposits. When deposits are outstanding, the statement shows a lower balance than the cheque register.

- **service charges:** Charges are made for many of the special services provided. These charges are deducted directly from the depositor's account and are identified on the statement by the initials SC (service charge). They will not have been recorded on your cheque register. An example of a service charge might be the cost of printing personalized cheques.
- **interest:** In the case of a daily interest chequing account, the depositor's account may show an increased amount to reflect any interest earned.
- **errors in calculation:** You may have made an error in calculating the new balance when deducting a cheque or adding the amount of a deposit. An error can be made by writing out a cheque for an amount different than what is written in the cheque register. You also could have forgotten to record a cheque or a deposit in the cheque register.

If there is a difference between the ending balance on the statement and the balance shown in the cheque register, the depositor must try to make the balances agree.

If the balances cannot be made to agree after taking all of the previously noted reasons for disagreement into account, then perhaps an error has been made by the bank in processing the account. Reconciling your bank statement and cheque register allows you to detect any errors and keeps you aware of the status of your account.



8. Anna received her bank statement, which showed a bank balance of \$327.00. "That's wrong," said Anna, "I've got more money than that in the bank!"

"Wait a minute," said Greg, "You wrote two cheques last week. Have they been subtracted from your bank balance?"

"How could I tell if they have?" asked Anna.

Perhaps you can help Anna. Here is the information you require to reconcile her bank account.

Anna's bank statement showed a balance of \$327.00, but she had written two cheques (outstanding cheques) in the amounts of \$32.00 and \$15.00. Anna had also made a deposit to the bank in the amount of \$85.00. This deposit also did not appear on the statement (outstanding deposit).

According to Anna's records, she had a cheque book balance of \$386.50. However, the bank charged Anna \$18.00 for cheque printing and \$3.50 for the use of bank services.

Bank Statement Balance	327.00	Cheque Book Balance	386.50
Plus: outstanding deposits	_____	Less: Service charges	_____

Less: outstanding cheques	_____		
Corrected Bank Balance	=====	Corrected Cheque Book Balance	=====

Compare your responses with those in the Appendix, Section 3: Activity 4.

Activity 4 introduced you to the skills in managing bank accounts, including writing cheques and reconciling the bank statement. Activity 5 will look at insurance requirements for businesses and individuals.

ACTIVITY 5

Comparing Insurance Requirements



Ameer decides to leave his car running in the winter while he goes into the store for a hot coffee. Janice decides to take an extra pep pill to stay awake while driving at night. The Quon family spends their emergency savings on a weekend ski trip. Ingrid borrows heavily from her friends and family to start up a new business. What do these four situations have in common?

All four situations involve someone who has decided to take a risk, venture into the unknown, or face a potential hazard.

You experience many risks in your daily life. Some of these risks can be reduced by being careful. Other risks are unknown. Risks may also have been taken many times before without anything occurring, so you may have become complacent or careless. Risks can never be completely eliminated; however, insurance can help both an individual and a business reduce the financial impact if some risk does occur. In this activity you will learn about some possible risks, recognize what insurance is, and see how insurance requirements for an individual are different from those for a business.

What Is Insurance?

The most practical way to guard against large losses is through insurance. Insurance allows a risk to be shared by a large number of people who each contribute a payment toward a possible loss if an accident does occur. The cost of insurance is generally determined by the amount of risk involved; the higher the risk the insurance company takes, the higher the cost of the insurance.

What Does Insurance Cover?

There are several different things that insurance covers, depending on the type of insurance. Some things covered by insurance may include the following:

- loss of life
- damage to a motor vehicle
- injury to a person
- theft of property
- an accident caused by another person
- the loss of a business through fire

1. For each of the following activities, list some ways that you could reduce the seriousness of an accident, if an accident were to occur.

Activity	Possible Ways to Reduce Seriousness of an Accident
driving a car	wear a seatbelt, drive slower
water-skiing	
doing a science experiment in school	
playing hockey	
walking in the woods	

Compare your responses with those in the Appendix, Section 3: Activity 5.

How Much Does Insurance Cost?

insurance

agent: a representative of an insurance company who assists the consumer in the selection of insurance

premium: the cost of purchasing insurance

policy: the legal contract between the consumer and the insurance company

policyholder: the person who has purchased the insurance policy

insured: the person who is being insured by the policy

insurer: the name of the insurance company that has granted the policy

actuary: a person who determines the cost of insurance based on statistical, historical information

In order to obtain insurance, you need to contact an **insurance agent**. The agent will ask you to complete an application for insurance. You will be required to pay a **premium** to the insurance company, and the company will then issue you a **policy**. When you receive the policy, you are called the **policyholder** or the **insured**; the insurance company is called the **insurer**.

The person who determines the cost of the insurance premium is called an **actuary**. An actuary prepares information and bases the insurance premium on this information. For example, in calculating the cost of home insurance, an actuary would consider the following:

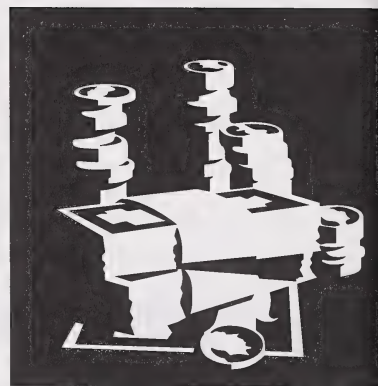
- the age of the house
 - the cost of the house and possessions
 - the number of thefts or break-ins in the neighbourhood
 - the presence of hazardous materials in the house or garage
2. List three possible reasons why an automobile insurance premium for a 16-year old student driver might be higher than for a 45-year old teacher.

Compare your responses with those in the Appendix, Section 3: Activity 5.

Property Insurance

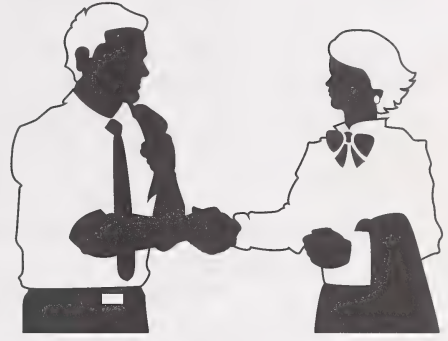
Two types of property—real and personal—are considered for insurance purposes. Real property is land or anything attached to land. Examples of real property are land, buildings, houses, and garages. Personal property is usually considered to be anything that can be easily moved from place to place. Everything you own, other than real property, is classified as personal property.

Homeowners' insurance protects you against financial loss to your real and personal property. The purpose of this type of insurance is to reduce the large financial cost that homeowners might have to endure through various kinds of loss or damage. The homeowners' policy can also include coverage for personal liability. This means that if someone on the homeowner's property is injured, the homeowner has insurance to pay that person for any injuries suffered.



Insurance in the Workplace for Business Owners

Most businesses have insurance to cover the land, buildings, contents, liability (in case employees are injured at work), and business interruption insurance. Business interruption insurance covers the costs of being shut down due to fire or vandalism. Insurance coverage for a business is far more extensive and expensive than for an individual because, in many cases, the employer is considered liable for the actions of the employees.



Ethics



3. Gillian works as a server in a restaurant where she has been employed on a part-time basis for the past three years. Gillian was serving hot soup to a customer and accidentally spilled the soup on the customer's hand. The customer's hand was scalded. First aid was administered and the customer left. Two weeks later, a letter was received by the restaurant from the lawyer of the burned customer, requesting payment in the amount of \$1000 due to the injuries suffered. Should Gillian or the employer be responsible for the payment? Will insurance cover this payment?

Compare your responses with those in the Appendix, Section 3: Activity 5.

Employees that handle money are often required to be bonded. This means that they have had their backgrounds checked and they have a good reputation. If there is a large loss of funds in the business, the business can apply to the bonding company for compensation.

Insurance in the Workplace for Employees

In addition to the major types of insurance you learned about earlier, there are other forms of insurance available to employees in the workplace.

Group Insurance

Group insurance is term insurance issued to a group of people under one common policy. The insurance lasts for a period of time and is usually available to company employees. A medical examination is usually not required and the premium is very low. The insurance usually ends when the employee leaves his or her job with the company. A group insurance plan can include benefits for the insured and the insured's family. Coverage can include the following:

- life insurance
- accidental death insurance
- long-term disability insurance
- additional medical or health care insurance
- dental insurance

Provincial Insurance

Government of Alberta Health Care includes hospital and medical insurance. Hospital insurance covers standard hospital accommodation, meals, nursing services, and drugs ordered by the doctor during the patient's hospital stay. Medical insurance covers the services of doctors, surgery, the treatment of fractures, the treatment of illness, and medical examinations.

In many cases, employers will pay a portion of the cost of insurance and other benefits on behalf of their employees.

Workers' Compensation

If employees are injured at work, they may receive a portion of their salary from the Workers' Compensation Board until they are able to return to work. Workers' Compensation is a type of no fault insurance. It is based on collective liability, which means employers in each industry share the cost of compensating injured workers. Contributions to this benefit are made entirely by employers. Most companies are concerned about preventing accidents at the workplace.

This activity introduced you to the area of insurance and the variety of policies available to an individual and a small business.

FOLLOW-UP ACTIVITIES

If you had difficulties understanding the concepts in the activities, it is recommended that you do the Extra Help. If you have a clear understanding of the concepts, it is recommended that you do the Enrichment.



Extra Help

In this section you examined the methods of acquiring capital, financial credit sources and services, and credit problems. You also developed skills in managing bank accounts and looked at insurance requirements for a small business.

1. Match the words on the left with their definitions on the right.

a. capital	_____	a financial institution that has a federal government license to operate
b. equity financing	_____	a cheque that is more than six months old
c. collateral	_____	includes the original investment by the owner, as well as the machinery, tools, buildings, and other items used in the production of goods and services

- d. chartered bank _____ borrowing from an individual in exchange for an interest in the business
- e. credit union _____ an asset that is used as security for a loan. If the loan is not repaid, the lender takes the asset.
- f. credit rating _____ the cost of purchasing insurance
- g. assets _____ a cooperative association that provides banking services to its members
- h. mortgage _____ a personal financial profile that determines your credit worth
- i. stale-dated cheque _____ anything of value owned by a company. Assets can include furniture, vehicles, equipment, buildings, and accounts receivable.
- j. premium _____ the legal contract between the customer and the insurance company
- k. policy _____ a loan given for the purchase of buildings or property with the property used as security for the loan

2. The following cheque was written by Marcia Sinclair to pay for a purchase she made at the Quik-Mart. Find the error in the cheque.

Marcia Sinclair 4723 - 34 Avenue Edmonton, AB T5J 3T1		009
PAY TO THE ORDER OF <u>Quik Mart</u>		<u>July 4, 1995</u> <u>\$ 87.90</u>
<u>Eighty Seven and nine</u>		DOLLARS 100
THE HOME SHORES BANK SOMETOWN, ALBERTA T0A 2Z3		<u>M. Sinclair</u>
... 12345 ...678999: 999. 00099 .		

Compare your responses with those in the Appendix, Section 3: Extra Help.



Ethics



Do **one** of the following activities.

1. Suzanne was busy working in the garden when her son, Adam, and his friend, Leon, came to ask if they could go to the outdoor pool for the day.

Suzanne thought it was a wonderful idea—the kids would be out of her way for the rest of the day! Then she remembered that she didn't have any money in her wallet, but she did have her bank card. But she still didn't have time to get cleaned up and go to the bank.

Adam had always been a good boy—he was very reliable and trustworthy. He would be very disappointed if he couldn't go swimming.

"Adam, go in the house and get my wallet, a piece of paper, and a pen."

When Adam came back, she wrote down her personal identification number and told Adam how to insert the bank card and withdraw \$20.

Adam and Leon rushed off to the convenience store where there was a bank machine. They were back in five minutes with Suzanne's bank card and \$20. Then they grabbed their swim stuff and raced off to the pool.

"What a great idea!" thought Suzanne.

What was wrong with Suzanne's actions? Discuss this scenario with another member of your class or a friend.

2. Read the following newspaper article, which appeared in the April 24, 1995 edition of *The Edmonton Journal*. Then answer the following question.

==== "Fort Nelson rocked by deaths of 6 young people: Fort Nelson: No sign brakes were applied"¹ ====

Mike Crawley

Vancouver Sun

Fort Nelson, B.C.

The highway deaths of six young people have rocked the northern town of Fort Nelson, where they grew up.

They were killed instantly during a ride home from an all-night party when their pickup truck veered into the wrong lane, slamming head-on into a loaded tractor-trailer on the Alaska Highway.

"It's the worst catastrophe this town has ever seen and we have seen some bad ones," Coun. Grace Bumstead, a resident of Fort Nelson for 50 years, said Sunday.

"It's touched everybody in one way, shape or form."

About 4,000 people live here.

The crash happened shortly before 9 A.M. Saturday about 10 km north of the town on a relatively new, wide stretch of highway in clear sunny weather.

It appears that the southbound

¹ *The Vancouver Sun* for the article, "Fort Nelson rocked by deaths of 6 young people: Fort Nelson: No sign brakes were applied," written by Mike Crawley. Reprinted by permission of *The Vancouver Sun*.

pickup turned quickly into the path of the northbound semi, said coroner Donald Edwards.

"There's no sign that they braked, there's no sign that they took evasive action," said Edwards. "The young people clearly came across the centre line and went straight into the truck."

The six were all in the front of the single cab pickup, which had bucket seats, said Edwards. They had attended an all-night party in Fort Nelson, drove north out of town and were on their way back toward home. Toxicology tests will be performed on the victims and the results released, said Edwards.

What risks did the driver and the passengers of the truck take that may have led to their deaths? Discuss this article with a friend or classmate.

Compare your responses with those in the Appendix, Section 3: Enrichment.

CONCLUSION

In this section you examined the reasons for acquiring capital and explored the services offered by financial institutions and how to use these services. You also learned about credit and the problems surrounding its use, and insurance requirements of a small business and an individual.

This section began with a description of Kyle and his dream of opening a fitness center. After completing this section you should be in a better position to advise someone like Kyle in the area of financial resources.

ASSIGNMENT

Turn to your Assignment Booklet and do the assignment for Section 3.



SECTION



Government Legislation



JIM WHITMER PHOTOGRAPHY

SANDRA and Harold have been married for ten years. They have two young boys, Alex and Jacob. Sandra has a degree in early childhood education, and she and her husband have decided to operate a daycare centre from their home. Sandra has the necessary skills, and the house has a large backyard and an extra bathroom in the basement. Sandra was discussing their plan with their neighbours and was told that they would need to apply for a business license to operate the daycare centre. “A license,” sniffed Sandra, “That’s just another way for the city to collect a fee!”

In this section you will examine the government regulations and policies that affect financial management for an individual and a small business. You will discover some of the reasons that the government requires a license for Sandra and Harold’s daycare centre.

ACTIVITY 1

Regulations and Policies

A business requires a license or permit to operate. This license acts in the following ways:

- provides protection for the public against unfair trade practices
- provides tax assessment information
- assists in the enforcement of labour and health regulations
- promotes orderly, economic growth, especially in municipalities



The three levels of government—municipal, provincial, and federal—may require an entrepreneur to obtain licenses to operate a business.

1. What factors would be considered in granting a license for a daycare centre to Sandra and Harold? For example, is the area designed for the children's safety? List as many other factors as possible.

Compare your responses with those in the Appendix, Section 4: Activity 1.

Each local government in Alberta has the right to control licenses within its boundaries. There is a wide difference in how each municipality issues business licenses. Before you start a business, it is wise to contact the secretary-treasurer of the municipality or the licensing division of the city to find out how your business may be affected by local regulations, licenses, or zoning requirements.

Alberta Consumer and Corporate Affairs issues provincial licenses. What determines whether a business needs a provincial license? If a business requires payment before a service or product is provided, it will have to be licensed by the provincial government. The provincial government is concerned about protecting consumers who make advance payments. A provincial license is required by many entrepreneurs:

- agriculture or any business dealing directly with agriculture
- highway department – The use of land along a provincial road is controlled, as is any development within one kilometre of a road outside villages, towns, or cities.

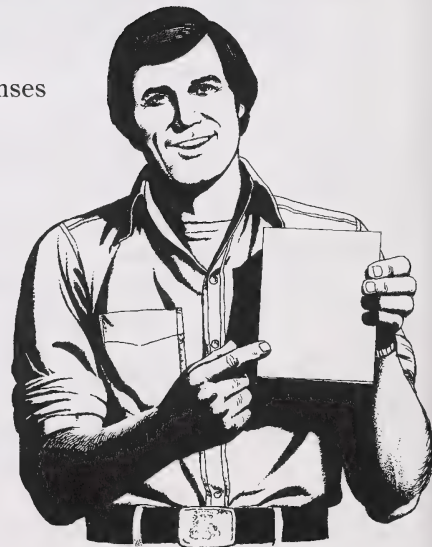
- sawmills, timber-cutting operations
 - nursing homes
 - mines, oil and gas drilling, pipeline construction
 - private investigators, security agencies, locksmiths, and guards
 - guides and outfitters, dog trainers, taxidermists, tanners, furriers and fur buyers, commercial fishing, fish marketing, and game or bird farms
 - cemeteries
 - liquor service
 - real estate
 - homes for special care, daycare centres, foster homes
 - private schools
 - environment – a business that will emit waste into the air or water or that will use water from a natural source
2. Why do you think the government is concerned about protecting consumers with respect to cemeteries? What risks to the community would be involved here?

Compare your responses with those in the Appendix, Section 4: Activity 1.

Federal Licenses

The federal government issues business licenses within the following fields:

- agriculture
- manufacturing
- communications
- interprovincial and international transportation



The federal government has licensing powers for the following areas relating to Alberta businesses:

- the manufacturing of fertilizers and pesticides
- the export and import of agricultural products
- the licensing of all pilots and aircraft
- broadcasting stations, ham radios, two-way radios
- fish processing companies
- businesses or individuals operating fishing vessels

Other Regulations

The provincial and federal governments are concerned with more than just the licensing of businesses. They have passed laws, such as the Clean Air and Water Act, to ensure the preservation of land for future generations. Other laws deal with the following:

- employee-employer relations
- competition
- consumer protection

3. Why has the government become involved in the regulation of businesses?

Compare your responses with those in the Appendix, Section 4: Activity 1.

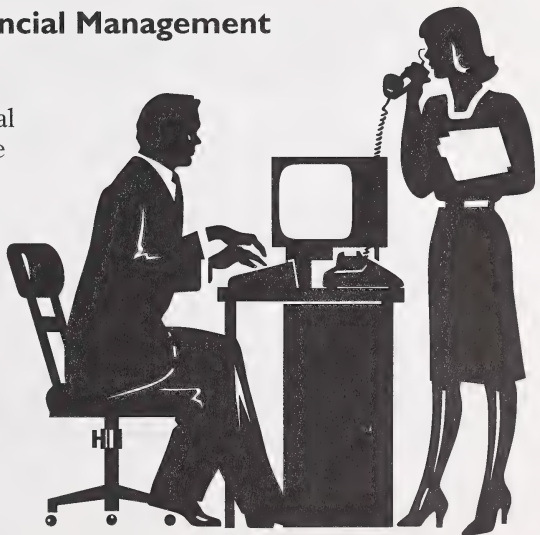
You now have a better understanding about why government regulates business. You will now study some of the regulations that affect financial management in greater detail.

Regulations that Affect Financial Management

Businesses need to be aware of the following federal, provincial, and local government regulations that must be adhered to.

Unemployment Insurance

Unemployment Insurance is an income insurance plan provided by the federal government to protect workers against loss of income. Both the employer and the employee make contributions to the fund, based on a percentage of the employee's salary.



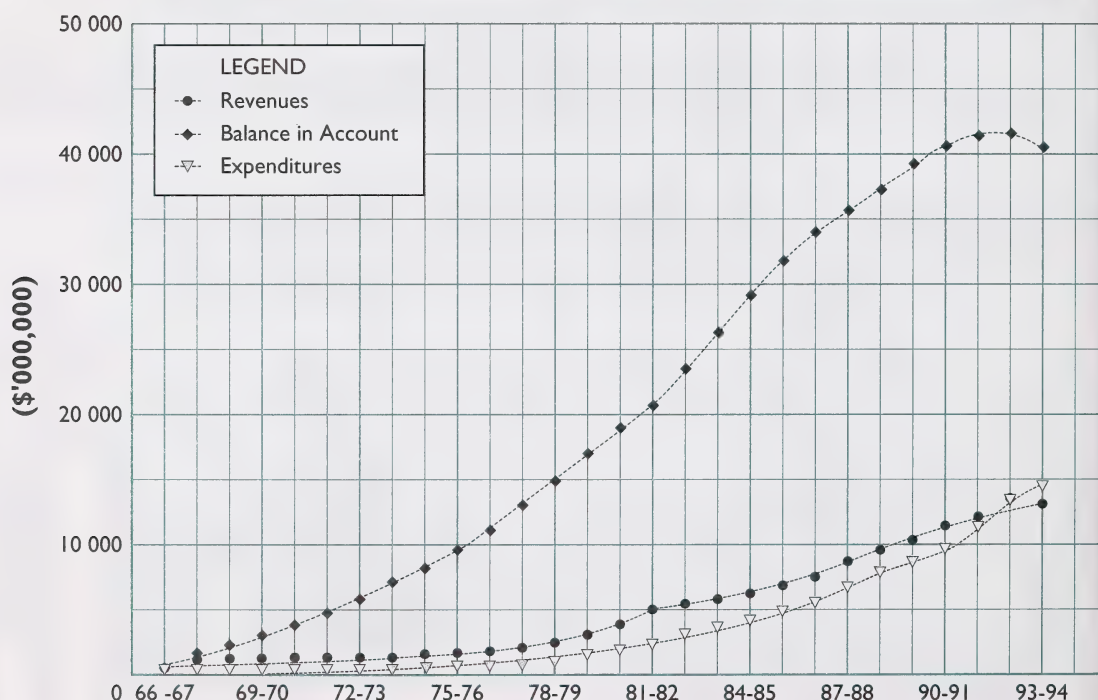
These contributions, along with a contribution from the federal government, provide a common fund that pays unemployed workers. To qualify, you must have been out of work a certain number of weeks.

Canada Pension Plan

The Canada Pension Plan was enacted in 1965 and came into force on January 1, 1966. It covers nearly all employed and self-employed persons in Canada (except Quebec) who are between the ages of 18 and 70 and who earn more than a minimum level of earnings. The rate for 1994 was 2.6 percent of earnings for employees and employers, for a total contribution of 5.2 percent. This amount rises by 0.1 percent per year until 1996, when it will be updated for another five-year period.

Look at Table 4.1, which contains the Revenues, Expenditures, and Balance in Account of the Canada Pension Plan. Notice how the revenues and expenses in the account were the same in the year 1992-93.

TABLE 4.1
REVENUES, EXPENDITURES AND BALANCE IN ACCOUNT¹



¹ Revenues, Expenditures and Balance in Account from *Program Statistics*, Human Resources Development Canada.

4. What do you think will happen to the Canada Pension Plan if the trend shown in Table 4.1 continues?
5. Antonio and Oksana have just begun working at a small manufacturing business. They received their first month's salary, and were shocked to see deductions from their salary for Unemployment Insurance and Canada Pension Plan.

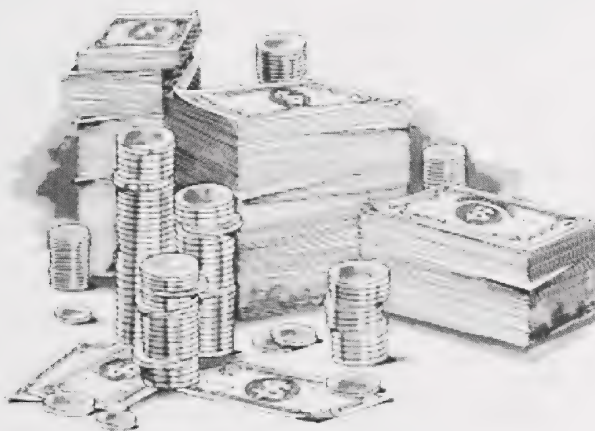
"Why do I have to pay into these funds? I'm not even given a choice!" snorts Antonio.

"The government should make this optional," agrees Oksana. "If you want to pay into these plans, go ahead; and if you don't, don't."

What is wrong with Antonio and Oksana's logic about making Unemployment Insurance and Canada Pension Plan payments optional?

Compare your responses with those in the Appendix, Section 4: Activity 1.

Income Tax



net claim code:
a number used
when referring to
income tax tables
that indicates the
amount of
exemptions
claimed

TD1:
government tax
deduction form to
be completed
yearly that shows
personal
exemptions

Individual income taxes are the largest source of revenue for both the federal and provincial governments. These taxes are deducted from the employee's wages and submitted to the federal government on a monthly basis. The tax is based on the amount of the salary: the higher the income, the higher the rate of taxation. A second factor in the amount paid is the number of dependants the employee has: the more dependants an employee has, the less tax that person will have to pay. Each employee completes a **TD1**, which indicates the employee's **net claim code**, a category noting the amount of tax exemption the employee is entitled to claim.

What Happens with \$1000 Earned?

gross salary:
salary before any
of the mandatory
deductions have
been made

Wanda Worker earns \$1000 per month in **gross salary** from the True-Test Company, where she is an accounting clerk. What follows is an approximation of Wanda's salary deductions. The actual amounts change from year to year as the regulations are changed.

TABLE 4.2
WHERE DOES THE MONEY GO?

What Wanda Earns		What the Company Pays		What the Government Receives
Salary	\$1000	Salary	\$1000	
Less: Income Tax	\$300			\$300
Less: CPP	\$25	Plus: CPP	\$25	\$50
Less: UIC	\$30	Plus: UIC	\$42	\$72
Wanda Receives	\$645	Company Pays	\$1067	Government Gets \$422

net earnings:
earnings after all
deductions have
been made
(sometimes
referred to as
take-home pay)

Wanda now has \$645 to spend. This is her **net earning**. The True-Test Company is paying out \$67 in company benefits on behalf of Wanda, and the federal government receives \$422, which is apportioned to the Canada Pension Plan, Unemployment Insurance, and income tax.

Other Deductions

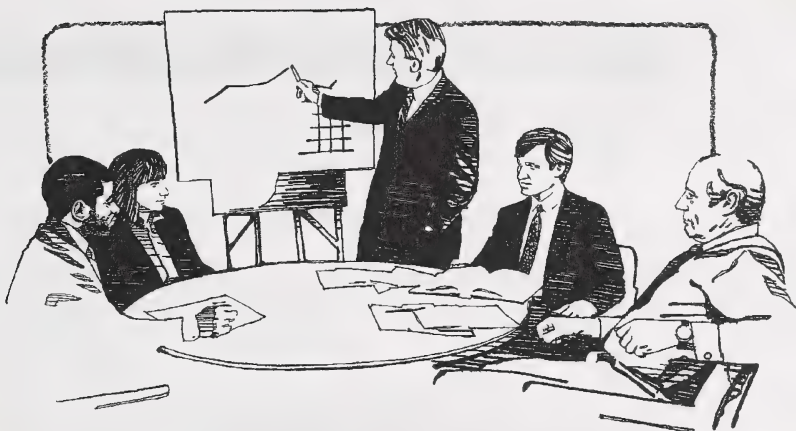
In addition to the three deductions that employers must make, there are many other deductions that may be made from the employee's paycheques. Alberta Health Care payments are usually deducted from earnings in the province of Alberta, and in jobs where a union is responsible for negotiation of a collective agreement, union dues are usually deducted by the employer. Hospital insurance, dental care plans, and life insurance are other common deductions. Some workers voluntarily subscribe to savings plans that are also deducted from their earnings.

Activity 1 introduced the concepts of regulations and policies involving licensing and taxation of small businesses and individuals.



ACTIVITY 2

Sources of Information and Assistance



This section began with a look at how Sandra and Harold were coping with the decisions involved in opening a daycare centre.

A major problem small business owners encounter when they start a business is obtaining adequate financing and information. In this activity you will learn about some of the assistance programs and facilities available to entrepreneurs. These include:

- federal, provincial, and municipal government assistance
- financial institutions
- community resources

The Federal Business Development Bank

The Federal Business Development Bank was established in 1944 as the Industrial Development Bank and became the FBDB in 1975. It is a crown corporation set up to help establish and develop business (particularly small business) ventures in Canada. The services offered by the FBDB include financial assistance and management services. The FBDB offers financing to entrepreneurs who have had loan applications rejected by other financial institutions. Financial assistance is provided to small businesses by lending them money at competitive rates of interest. The FBDB will often provide needed funding to worthwhile projects that private financial institutions may not be willing to help because of the risk. Did you know that the FBDB offers loans up to \$3000 for students who want to be entrepreneurs during the summer?

The FBDB offers management services as well as financial services. Management services include counselling, training, and information. The FBDB has established Counselling Assistance to Small Entrepreneurs (CASE), which involves retired business people providing expert advice in all areas of management, including bookkeeping, marketing, production, and personnel.

1. Why is it important for the FBDB to provide assistance to entrepreneurs to establish new businesses in Canada?

Compare your responses with those in the Appendix, Section 4: Activity 2.

Economic Development and Tourism



Economic Development and Tourism supports and encourages the business community by stimulating new business and helping with the expansion of existing businesses.

Alberta Opportunity Company

The Alberta Opportunity Company is a crown corporation that offers assistance to small businesses in Alberta. It offers the following to businesses:

- the corporation promotes the development of Alberta's resources
- it promotes the diversification and general growth of Alberta's economy
- provides loans, guarantees, or equity financing

Alberta Research Council

If a small business is involved in the areas of science and/or technology, the Alberta Research Council is another provincial organization that provides assistance. Its goal is to promote business development through science and technology, especially in the following areas:

- microelectronics
- computing
- automation

Alberta Agriculture

If you are thinking about starting a small business that deals with food or agriculture processing, Alberta Agriculture can provide financial help towards building and equipment costs.

Municipal Government Assistance

You have examined how the federal and provincial governments provide assistance to small businesses through their many agencies. You will now discover what assistance is offered by municipal governments. Why do you think local government offers assistance to small business? Many local governments state that programs should be developed to reduce reliance on a single industry and to broaden the industrial and commercial base of the community.

The Economic Development Authority

Within your local government, the economic development authority (the name may vary from place to place—check with your city or town hall for the exact name) is concerned with the following:

- expansion of the community's **economic base**
- offering professional services to businesses

economic base:
*the primary
businesses and
industries in a
community*



Business Incubator

Local governments assist in the development of business incubators. Incubators are advisory associations set up by local businesses in the same industry to help other small businesses enter that particular industry. An example of a business incubator is the Calgary Advanced Technology Centre, which assists small technologically oriented businesses.

Business incubators are established to do the following:

- assist in the start-up, development, growth, and success of small businesses
- provide cost-effective services
- provide access to other entrepreneurs.

The Chamber of Commerce

Is there a chamber of commerce in the area where you live? If so, you may want to arrange a visit to become familiar with its functions. The chamber of commerce is an organization composed of business people in a local area. These people pay a fee to become members. The chamber is concerned with all aspects of running a small business and provides the following to its members:

- speakers
- seminars
- counselling

▼
lobby group:
an organized group with a common cause that makes applications to members of governments
▲

The chamber acts as a **lobby group** by forming committees concerned with a variety of issues—such as the environment, taxation, and education—as well as proposing regulations to all government levels. The chambers of all municipalities work together as a united front to gain momentum for their proposed recommendations.

The chamber promotes the community in which it is located to convince other industries to establish businesses in the community.

Chartered Banks

Chartered banks offer to small businesses certain services, like depositing and withdrawing money and obtaining loans. They provide financial assistance to small business entrepreneurs in the form of loans to be paid back with interest. Starting a business is a risk. Loaning money to a potential business is even riskier. For this reason, the bank loans officer or loans manager will want to see a business plan before granting a loan. Bank officials will review the business plan and question aspects that appear vague and incomplete. They may ask the entrepreneur to do some more research or the officials might conduct market research if they question the conclusions the entrepreneur has reached. A small business person should not rely solely on borrowing money from a bank.

Refer to the Table 4.2, Highlights of Alberta Provincial Incentive Programs, to see what kinds of assistance are available to businesses and industries in Alberta.

TABLE 4.2
HIGHLIGHTS OF ALBERTA PROVINCIAL INCENTIVE PROGRAMS

Program	Purpose	Administered By	Eligibility	Extent of Assistance
Alberta Opportunity Company	To promote the development of resources and diversification of the Alberta economy	Alberta Department of Industry and Tourism	Businesses in Alberta	Loans and loan guarantees, business management consulting, and venture funding
Alberta Agricultural Research Institute	To assist new agribusinesses to become established and existing ones to expand	Alberta Agriculture Development Corporation	Agribusinesses which process primary products and/or provide a necessary service to farming enterprises	Matching grants
Alberta Agriculture	To assist agricultural manufacturers, processors, and exporters	Agriculture Alberta/ Agriculture Canada	Anyone involved in agriculture in Alberta	Grants of up to 50% to a maximum of \$15 000 for some programs
Alberta Management Assistance Program	To improve the service, organization, and profit structure of small business by offering private sector management counselling	Alberta Department of Economic Development and Trade, Small Business Division	Small, independent Alberta businesses	Self-help assistance includes analysing, counselling, and auditing results; improving management techniques, access to professionals
Vocational Rehabilitation of Disabled Persons	Assists permanently disabled persons	Alberta Career Development and Employment	Resident of Alberta over 18 years of age with permanent disability	Reimburse for on-the-job training 50% of costs to maximum of \$5000
Alberta Oil Sands Technology and Research Authority	To encourage oil sands development	Alberta Oil Sands Technology and Research Authority	Companies involved in locating, extracting, or processing oil sands	Grants
Inventor's Grant Assistance Program	To enable inventors to develop their inventions	Alberta Oil Sands Technology and Research Authority	Individual inventors	Grants for \$5000 to \$50 000

1

From *Government Assistance Programs in Canada, A Practical Handbook* (1993), 14th Edition.

Program	Purpose	Administered By	Eligibility	Extent of Assistance
Joint Research Venture Program	Assists companies to develop chosen technologies	Alberta Research Council	Small and medium-sized Alberta companies	
Technology Commercialization Program	To promote university/industrial collaboration in medical research	Alberta Heritage Foundation for Medical Research	Any medical professional in a university or Alberta-based company	Funding on a per-project basis
Alberta Environmental Research Trust	Expansion of applied research to protect and improve the environment	AERT	Any person, individual, corporation, or society	Varies
Forest Development Research Trust Fund	To improve forest land management practices	Alberta Forestry, Land and Wildlife	Any Alberta company	Grants
Alberta Technology Commercialization Program	Supports high technology ventures	Alberta Technology, Research and Telecommunications	Alberta manufacturers/developers of high-tech products	Conditional grants to maximum of \$100 000
Alberta Export Loan Guarantee Program	To aid in obtaining export sales	Alberta Economic Development and Trade	Alberta manufacturers and processors	Loans guaranteed to maximum of \$5 million
Market Development Assistance Program	To assist companies to enter new export markets	Alberta Economic Development and Trade	Alberta companies	Financial assistance for market trips, trade show participation, etc.
Market Feasibility Studies	To help undertake market feasibility studies	Alberta Economic Development and Trade	Alberta entrepreneurs	50% or \$5000 maximum
Long-Term Management Assistance Program	Provide businesses with access to professional private sector management consulting	Alberta Economic Development and Trade	Qualified Alberta companies	Contributions up to \$10 000

2. Use Table 4.2 to fill in the second column of this table. In most cases, there is more than one choice.

WHO CAN HELP?	
Business	Program That Might Assist
Harold is in a wheelchair and would like to start a new business in computer graphics.	
Sandra wants to develop a new bread mixture for people with allergies.	
Carlos has invented a system to extract oil from the oil sands.	
Henrietta would like to check out the market for her new product.	
Georgia would like to expand her market overseas.	
Frankie has a new computer program that he would like to market.	

Compare your responses with those in the Appendix, Section 4: Activity 2.

Activity 2 provided you with basic information on sources of assistance that may be available to small businesses and individuals.

FOLLOW-UP ACTIVITIES

If you had difficulties understanding the concepts in the activities, it is recommended that you do the Extra Help. If you have a clear understanding of the concepts, it is recommended that you do the Enrichment.



Extra Help

This section focused on regulations and policies that affect the financial management of a small business or an individual. Sources of information and assistance were then reviewed.

Business licenses were discussed. The following example shows some other functions of business licenses.

Simone is looking for a cleaning service for her home, which she inherited from her family. The home is large and weekly cleaning is a task that Simone does not enjoy. Simone lives alone and has no close family that she can turn to for assistance in this matter, so she turns to a local directory of businesses published by her community's Chamber of Commerce. Simone selects the name of a cleaning service from this directory: The Fussy Grandmas. The ad states that they have been in business for over five years and are licensed. Simone wonders why it would be important for a maid service to be licensed. Here are some possible reasons:

- The license would state the names and addresses of the owners of the company. This would provide information to the consumer if there was any problem. It might also include the names of the employees of the company.
- If a theft was reported, the The Fussy Grandmas' business license could be suspended or revoked until the matter was clarified.
- The license would prevent another company with a similar name (such as the Cleaning Grandmas) from getting a license and advertising and trading on the good reputation of The Fussy Grandmas.

The license provides a form of consumer protection to Simone, and the Chamber of Commerce assists the consumer in making selections from their community.

Answer the following question.

Arlo is looking for a reputable body shop to repair his car, which was involved in a small fender-bender. Arlo found a body shop, and they asked that he leave his car on the premises for a few days for the work to be completed. What risks are Arlo taking if it turns out that the company is not licensed? For example, what would happen if Arlo returned for his car and it was gone?

Compare your responses with those in the Appendix, Section 4: Extra Help.



Enrichment

Do **one** of the following activities.

1. Contact your local Chamber of Commerce or Economic Development Board to determine the names of new businesses in your community. Select one of these new businesses and contact the owners. Ask the owners the following questions.
 - What prompted the owners to start a new business?
 - What kind of experience or training did they have in this area?
 - Where did they go for financial assistance to begin the business?
 - Did they receive any funding from the federal, provincial, or municipal governments?

Present your findings in the form of a report. Use a word processing program if you have access to a computer.

Communication

2. Contact one of the assistance programs listed in Table 4.2. Find out the following aspects of the program.

- Is the program still viable, or have there been recent changes?
- How much money is available in the program?
- What time of year are applications accepted? (Deadlines, etc.)
- How many current applicants are there for assistance?
- any other information

You may have to call a local government agency to obtain the telephone number or address.

Technology

Present your information in the form of a report. Use a word processing program if you have access to a computer.

CONCLUSION



In this section you have examined the regulations and policies of the federal, provincial, and municipal governments that have an effect on the financial management of a small business or an individual. You have looked at the needs of a community in respect to licensing businesses. You have also examined the purpose of Unemployment Insurance and the Canada Pension Plan, and looked briefly at income tax and how it affects the Canadian worker. In this section you also looked at sources of information and assistance available to small businesses and entrepreneurs who wish to begin their own business.

ASSIGNMENT

Turn to your Assignment Booklet and do the assignment for Section 4.



M • O • D • U • L • E S • U • M • M • A • R • Y



JIM WHITMER PHOTOGRAPHY

At the beginning of this module you were introduced to Gio and Christina. Christina was going on a ski trip, while Gio was staying home because he had no money. In this module you were introduced to some of the planning strategies and financial management skills that Christina may have used to save money.

You were also introduced to the issue of ethics and ethical behaviour in business. You saw how employee work habits and behaviour can be somewhat controlled by a code of ethics.

You then learned about the economic environment surrounding you. Section 2 dealt with different economic systems and the

characteristics of each. It also covered the concepts of competition, supply and demand, inflation and recession, and fiscal and monetary policies. Section 2 also introduced you to world markets and international influences on Alberta's economy. You learned how to evaluate the issues that may create economic change—environmental issues, legal issues, social issues, and human resource issues. You were introduced to some of the methods used by economists and individuals in business to make economic decisions.

Section 3 covered the different types of financial institutions and the various services offered by each. You learned how and where to get financial assistance. You also learned about credit and the advantages and disadvantages of using it. Section 3 also showed you how to efficiently manage your bank account—specifically a chequing account. You learned about the needs for individual and business insurance.

Finally, in Section 4, you learned how government legislation—federal, provincial, and municipal—helps individuals and businesses.

This module has provided the basic knowledge that you need in order to continue with your studies in Financial Management.

Good luck!

COURSE SURVEY FOR INTRODUCTION TO FINANCIAL MANAGEMENT (FIN 101)

Please evaluate this course and return this survey to the address given at the end of the survey. If you have a final module assignment, you may return this survey with that assignment. This course is designed in a new distance learning format, so we are interested in your responses. Your constructive comments will be greatly appreciated, as future course revisions can then incorporate any necessary improvements.

Name _____ Age ☐ under 19 ☐ 19 to 40 ☐ over 40
Address _____ File No. _____

Date _____

Design

1. The Student Module Booklet contains a variety of self-assessed activities. Did you find it helpful to be able to check your work and have immediate feedback?

☐ Yes ☐ No If yes, explain.

2. Were the questions and directions easy to understand?

☐ Yes ☐ No If no, explain.

3. Each section contains Follow-up Activities. Which type of Follow-up Activity did you choose?

- ☐ mainly Extra Help
- ☐ mainly Enrichment
- ☐ a variety
- ☐ none

Did you find these activities beneficial?

- ☐ Yes ☐ No If no, explain.
-
-

4. Did you understand what was expected in the Assignment Booklet?

- ☐ Yes ☐ No If no, explain.
-
-

5. The course materials were designed to be completed by students working independently at a distance. Were you always aware of what you had to do?

- ☐ Yes ☐ No If no, provide details.
-
-

6. This course may include drawings, photographs, and charts.

a. Did you find it helpful to have these visuals?

- ☐ Yes ☐ No Comment on the lines below.
-
-

b. Did you find the variety of visuals motivating?

- ☐ Yes ☐ No Comment on the lines below.
-
-

7. Suggestions for audiocassette and videocassette activities may have been included in the course. Did you make use of these media options?

☐ Yes ☐ No Comment on the lines below.

Only students enrolled in a Junior High course need to complete the following question.

8. Students are often directed to work with their learning facilitator. How well did you work as a team?

Student's comments: _____

Learning facilitator's comments: _____

Course Content

1. Was enough detailed information provided to help you learn the expected skills and ojectives?

☐ Yes ☐ No Comment on the lines below.

2. Did you find the work load reasonable?

☐ Yes ☐ No If no, explain.

3. Did you have any difficulty with the reading level?

☐ Yes ☐ No Please comment.

4. How would you assess your general reading level?

☐ poor reader ☐ average reader ☐ good reader

5. Was the material presented clearly and with sufficient depth?

☐ Yes ☐ No If no, explain.

General

1. What did you like least about the course?

2. What did you like most about the course?

Additional Comments

Only students enrolled with the Alberta Distance Learning Centre need to complete the remaining questions.

1. Did you contact the Alberta Distance Learning Centre for help or information while doing your course?

☐ Yes ☐ No If yes, approximately how many times? _____

Did you find the staff helpful?

☐ Yes ☐ No If no, explain.

2. Were you able to fax any of your assignment response pages?

☐ Yes ☐ No If yes, comment on the value of being able to do this.

3. If you mailed your assignment response pages, how long did it take for their return?

4. Was the feedback you received from your correspondence or distance learning teacher helpful?

☐ Yes ☐ No Please comment.

Thanks for taking the time to complete this survey. Your feedback is important to us. Please return this survey to the Alberta Distance Learning Centre.

Instructional Design and Development
Alberta Distance Learning Centre
Box 4000
Barrhead, Alberta
T7N 1P4





APPENDIX

Glossary
Suggested Answers



Glossary

This section contains vocabulary that you should know from Introduction to Financial Management.

account number: the customer's identification number

actuary: a person who determines the cost of insurance based on statistical, historical information

assets: anything of value owned by a company. Assets can include furniture, vehicles, equipment, buildings, and accounts receivable.

blank cheque: a cheque with no information on it

CA: Chartered Accountant, an accounting designation

CMA: Certified Management Accountant, an accounting designation

capital: includes the original investment by the owner, as well as the machinery, tools, buildings, and other items used in the production of goods and services

charge: to incur a debt by buying on credit

chartered bank: a financial institution that has a federal government license to operate

code of ethics: a set of standards, rules, or values which outlines an organization's commitment to equitable business practices

collateral: an asset which is used as security for a loan. If the loan is not repaid, the lender takes the asset.

competition: a rivalry between businesses selling the same product or service

consumption: the use of goods and services

credit: a way to purchase something now, but pay for it at a later date

credit bureau: a business that provides lenders with information about the credit history of prospective borrowers for a fee

credit rating: a personal financial profile that determines your credit worth. It indicates how good a credit risk you are and reflects your debt repayment records.

credits: entries on the right-hand side of the account statement. Credits constitute additions to the bank balance.

credit union: a cooperative association that provides banking services to its members

current account: a chequing account used primarily for writing many cheques

debits: entries on the left-hand side of the account statement. Debits are subtracted from the bank balance.

demand: the desire for a product or service coupled with the ability and willingness to pay for it

demand curve: a graph that indicates the quantities demanded of a product or service at a particular price

distribution: the process of marketing and supplying goods to the consumer

dividends: payments to shareholders as a share of the company's profits

drawee: the financial institution on which a cheque is drawn

drawer: the person or business who writes a cheque

economic base: the primary businesses and industries in a community

economics: the study of how society organizes its production, distribution, and consumption of goods and services

equilibrium point: the point at which both the producer and the consumer are satisfied with the product price

equity financing: borrowing from an individual in exchange for an interest in the business (taking a “silent partner”)

ethics: a set of moral principles or values

fiscal policy: the manipulation of government revenues and expenditures in an effort to produce the desired effects on national income, production, and employment

gross salary: salary before any of the mandatory deductions have been made

inflation: a continual increase in prices resulting from the economy being spent beyond its existing level of output. Prices rise and there is a feeling of trying to catch up.

instalments: payments made to reduce an existing debt according to a specified repayment plan

insurance agent: a representative of an insurance company who assists the consumer in the selection of insurance

insured: the person who is being insured by the policy

insurer: the name of the insurance company that has granted the policy

interest: the cost or fee incurred when borrowing money

law of demand: The demand for a product varies inversely with its price.

law of supply: The quantity of an economic product being sold varies directly with its price.

line of credit: pre-arranged credit extended by the financial institution to the individual or small business

lobby group: an organized group with a common cause that makes applications to members of governments

magnetic ink code: an electronic method of processing cheques. It uses the three sets of digits located on the lower left-hand corner of the cheque.

monetary policy: the manipulation of the money supply and interest rates in an attempt to produce the desired results on national income, production, and employment

mortgage: a loan given for the purchase of buildings or property with the property used as security for the loan

national income: the total of all incomes earned in the production of goods and services during the year

net claim code: a number used when referring to income tax tables that indicates the amount of exemptions claimed

net earnings: earnings after all deductions have been made (sometimes referred to as take-home pay)

outstanding cheques: cheques that have not been paid by the bank

outstanding deposits: deposits that do not appear on your bank statement, but which you have made

overdraft protection: occurs when a financial institution lends a client money to cover a cheque because there are not enough funds in the account to cover the cheque

payee: the person or business to whom a cheque is made payable

policy: the legal contract between the consumer and the insurance company

policyholder: the person who has purchased the insurance policy

post-dated cheque: a cheque with a future date on it

premium: the cost of purchasing insurance

privatization: selling government-owned corporations to individuals

production: the output of goods and services

recession: a phase of the business cycle in which economic activity has slowed down and is headed downward. Unemployment rises, sales decrease, and profits decline during this phase.

reconciling a bank statement: balancing the monthly statement with your personal records (cheque register)

stale-dated cheque: a cheque that is more than six months old

stop payment: a formal written request to a financial institution to halt the processing of a cheque

supply: quantities of a product offered for sale at all of the possible prices that might prevail in the marketplace

supply curve: a graph that indicates the supply of a product or service at a particular price

TD1: a government tax deduction form to be completed yearly that shows personal exemptions

transit number: the first set of digits identifying the branch

traveller's cheques: drafts purchased from a financial institution, signed by the purchaser at the time of purchase and again at the time of cashing as a safeguard against forgery

true chequing account: a chequing account that pays no interest, but provides cancelled cheques and a monthly financial statement

trust company: a financial institution that engages in the normal activities of a chartered bank and can function as both a corporate and personal trustee

Suggested Answers

Section I: Activity I

1. Answers will vary. An example of a work ethic that an employer might be able to measure fairly would be the aspect of coming to work on time each day. This could be measured by checking time cards, if available, or by auditing that employee's attendance. For a week the employer could jot down the time the employee arrived at work and the time the employee left.
2. Answers will vary. Providing support and encouragement to fellow workers might include exchanging birthday cards or a congratulatory card, and offering fellow workers encouragement and praise.

You could also provide support by helping a co-worker with his or her workload, or just by being supportive and caring.

- a. No, this is considered unethical behaviour. The money has been entrusted to you, but it is not your money to use. You might wish to place a note in the envelope (IOU) stating the amount you removed.
 - b. If this were appropriate, the company would have a policy of supplying items to employees to use at home. If you are unsure of the policy where you work, check with your employer.
 - c. Your company may have a policy concerning the acceptance of gifts during the course of employment. Many times, the gifts are shared by the entire group (e.g., a box of chocolates). If not, the gifts are sometimes raffled off by the staff so that everyone has an equal opportunity to benefit. Remember, if it is a team project, the team should benefit.
 - d. It is not your position to tell anyone. The situation may change, and you would be labelled a gossip.
 - e. This is a very difficult question. If you tell the truth, you may be fired by your boss. You need to sit down with your boss and explain that you are uncomfortable about covering for her. Perhaps she could get a cellular phone, so that she could keep in contact with the office, or she could simply not tell you where she is going, and then you would not have to lie. At any rate, this is unethical behaviour on her part and she has pulled you in to it.
4. The first statement makes the employee feel valued and professional. The second statement gives the impression that the employee is being lectured and reprimanded in advance for sloppy dress. The company would be reluctant to include the second statement in the code of ethics because it appears degrading, and it is also limiting. It mentions blue jeans, runners, and t-shirts. What about sandals? What about see-through shirts? Would these be included?
 5. Finco's code of ethics is emphasizing the company's care and concern for the environment. This statement is significant in the code of ethics because it reflects the company's philosophy, which all employees and the public should be aware of. This statement would not have appeared in a code of ethics at the turn of the century because industry was not as concerned with environmental issues as it is today.

Section I: Activity 2

1. It may be within the company's right to comment on all of these issues if the company can give evidence that the customers are affected negatively.

HAIR		Yes	No
Length of hair	too short, too long, bangs in the eyes, looks unappealing to customers	✓	
Colour of hair	inappropriate colour for work environment	✓	
Hair style	inappropriate style for work, hanging in face, unappealing to customers	✓	
Hygiene	hair appears oily or unclean, visible dandruff	✓	

2. Yes, there might be different rules for male employees. Many organizations allow the female staff to have more variety in their hair styles, whereas the men may be restricted to a more conservative style. These rules are, however, constantly being challenged by employees who feel they have the right to dress and wear their hair as they see fit.

3.

HAIR WHERE?	
Companies	Comments
Hair salon	Employees in hair salons are usually allowed to try out new styles and colours. It is a more liberal environment ("wilder").
Fast food restaurant	Employees would be required to keep their hair away from the food for health reasons. In some instances, they are required to wear a hat or hair net.
Upscale, expensive restaurant	Employees would be asked to wear their hair in a style similar to those of their customers. Well groomed hair would be a significant factor here.
Art gallery	Since this is a more liberal area of employment, more liberty might be extended to employees.
Mortuary	This is generally an extremely conservative environment and the hair styles would reflect this conservatism.
Record store	Employment is more casual here and the absence of food would tend to lead to more casual hair styles.
Government post office	Employees work in a conservative environment here; therefore, they may have more conservative hair styles.

4. Sandy should have spoken to her employer and the personnel director as soon as she knew she was pregnant. Sandy has many years invested in this company, and if she is as well liked and respected as she feels, then there will be a way to solve this problem. If Sandy tries to keep the secret until after the probation, her relationship with her boss might be severely damaged. Sandy should be thinking about the long-term situation. If her employer is a good one, he will respect Sandy for being forthright and honest. If the situation doesn't work out, and Sandy is not given the position, she could appeal through the personnel director.
5. a. If you are not sure if this is right or wrong, ask your employer. If you don't feel comfortable asking, then it's probably not the ethical thing to do!
- b. You are being paid to work while you are at work. Most employers are fairly flexible about personal phone calls. If you need to make personal calls, make them brief, and certainly try not to make personal calls where your clients can hear you.
- c. It is never appropriate to claim personal expenses as business expenses. There are no exceptions. If you start to cheat on these small things, it may lead to larger issues.

- d. Your company should have a policy about software use out of the office. Check with your company to see what the policy is and then adhere to it.
 - e. If you feel you need to stay home because you are not well, then use your sick days. Sick day abuse is common, and very costly to industry. Remember that if you use all your sick days, and then really need them for a serious operation or illness, they won't be there for you.
6. Many accountants provide services free of charge to non-profit organizations in which they are involved as a form of volunteerism to the community. Many small organizations could not afford to hire the services of a professional accountant. Caroline could assist in the audit without charging a fee, but if the daycare centre is a for-profit business, she should not be involved. Also, Caroline is a new graduate, and she must be extra cautious about guarding her professionalism because she has not yet developed her reputation in the business community.
7. It might be interpreted that Andy has exploited the information obtained to his advantage; therefore, he should avoid purchasing stocks in that particular company. Also, Andy is a new accountant, and he should be working on developing his ethical standards.

Section I: Follow-up Activities

Extra Help

1. There are a number of ethical problems with Juanita and Ian's personal relationship:
 - They may spend time at work socializing when they should be working.
 - Their relationship may deteriorate. If they still have to work together, this may be very uncomfortable.
 - When other employees find out about their relationship, they may feel that Juanita is receiving preferential or special treatment.
 - Juanita may not want to pursue a personal relationship. She may be in the difficult position of claiming sexual harassment if Ian insists on pursuing the relationship.
 - Their personal relationship may interfere with Ian's ability to supervise Juanita properly. He may be reluctant to criticize her.
2. Items b. and e. do not belong in the code of ethics. Statement b. is a safety regulation. Statement e. is a club or organization regulation. All other statements could be included in a code of ethics.

Enrichment

1. The behaviour exhibited by Elizabeth was illegal and carries a heavy fine or jail term.
2. Again, this is illegal behaviour and carries a severe fine or jail term.
3.
 - a. If the lunch was considered a business lunch, then the employees could claim this as a business expense. When they complete their income tax returns at the end of the year, they could claim this expense and not pay taxes on the amount.
 - b. If they reported this to the head office, their immediate supervisor might be reprimanded or they themselves might be fired. It is a very risky situation.

- c. Yes, it would probably make a difference. If it was included in the code of ethics, it could be discussed at times throughout the year. It would also be grounds for dismissal if it was written down and clearly announced to all staff.
4. Answers will vary. The report should be compiled using a word processing program, if available. It should contain the relevant information from the research conducted, and comparisons among the codes of ethics, if possible.

Section 2: Activity I

1.

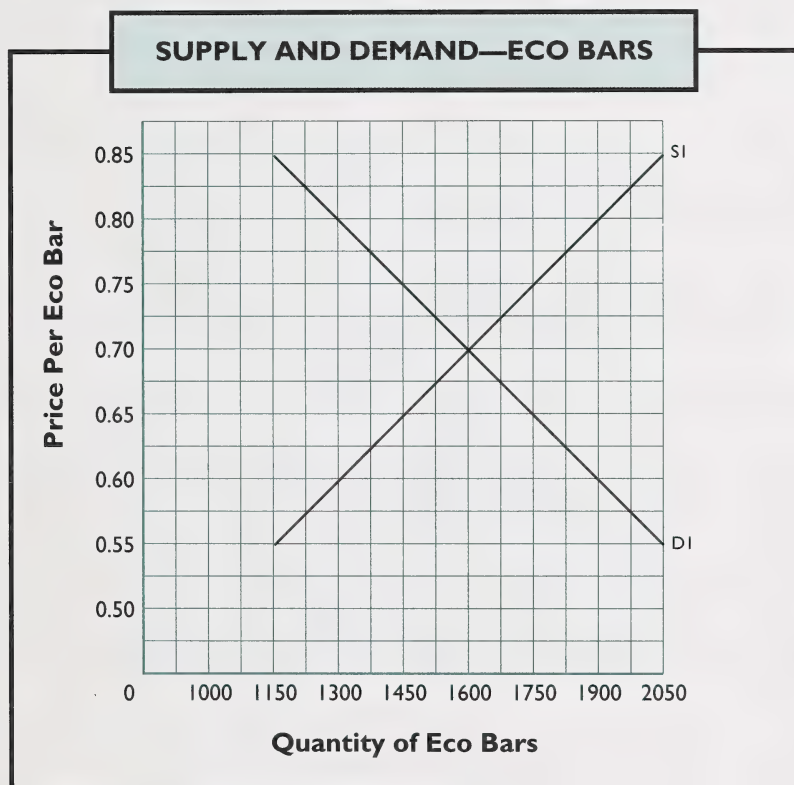
PUBLIC OR PRIVATE?					
Activity	Public Sector	Private Sector	Activity	Public Sector	Private Sector
Law and order	✓	✓	Transportation	✓	✓
Post offices	✓	✓	Utilities	✓	
Banks	✓		Farming		✓
Health care	✓	✓	Education	✓	✓

2.

WHO HAS CONTROL?						
Business Activity	Capitalism		Socialism		Communism	
	Gov't.	Indiv.	Gov't.	Indiv.	Gov't.	Indiv.
Hamburger restaurant		✓		✓	✓	
Utilities company	✓	✓	✓		✓	
Grocery store with three employees		✓		✓	✓	
Plumbing company with ten employees		✓		✓	✓	
Knitting company operating from a home		✓		✓		✓
Large mining company	✓	✓	✓		✓	
Large business conglomerate		✓	✓	✓	✓	
Postal service similar to Canada Post	✓		✓		✓	

3. a. i. There is a demand for 200 cones.
ii. There is a demand for 450 cones.
- b. i. There is a supply of 225 cones.
ii. There is a supply of 450 cones.
- c. The equilibrium point is reached when there is a supply of about 340 cones at a unit price of \$1.10 per cone.
- d. There is an excess demand.
- e. The excess at 95¢ is about 115 cones ($400 - 285 = 115$).

4. a.



- b. There are 1600 Eco bars supplied.
- c. At 72¢, there is a demand of about 1575 units and a supply of about 1650 units.
- d. At 63¢, there is a demand of about 1800 units and a supply of about 1400 units.

5. The costs of goods is rising; therefore, Cynthia will not be able to buy as much with the same amount of money.

6. a. Answers will vary. Some reasons why the city hall should be built at this time include the following:
- It will provide employment to support the economy.
 - It will prevent a large number of people from going on social assistance.
- b. Some reasons why the city should not build a city hall at this time include the following:
- A new city hall represents a greater potential tax burden at a time when a major industry is in recession.
 - The city can cope quite adequately without a new city hall, therefore it is unnecessary.
7. No, the government should not become involved in this one incident. However, if a trend of unfair business advantages was begun, the government might consider changing legislation. For example, in Quebec, cigarettes were being taxed quite heavily, and individuals were smuggling cigarettes into the province. The government reduced the tax on cigarettes to reduce the smuggling.

Unfortunately, there is little the owners of The Bookworm can do. Competition is natural and they must face the in competition.

8. You will notice that several products have been made in Asia.
9. You should look at the Pacific Rim as a great opportunity for your business. With the increasing population of the region, you will have access to a much larger market than you now have. With increased ties between our countries, there will be more business opportunities and a better understanding of each other's cultures.

Section 2: Activity 2

1. The Body Shop would likely gain customers who are concerned about the environment and the treatment of animals. The costs of the products might be higher due to the higher cost of production associated with recycling. Hopefully, the products would still be affordable for the majority of customers.
2. Answers will vary. The impact is difficult to measure, and there is a certain pride in the city when it is the home of a major sports team, particularly if the team is winning! However, the sports team is a private venture, and if tax dollars are being used to subsidize this private venture, then perhaps there is an inequity in place. What about other private businesses that wish to start up a sports team? Should they also be entitled to tax dollars?
3. In all likelihood, the reduction in the price of cigarettes would increase consumption by smokers, and corresponding health risks would increase. Similarly, if alcohol was reduced in price, usage would increase. The government would still be asked by its citizens to operate alcohol and drug rehabilitation centres and the federal medical care system would still be required to pay for the cancer operations caused by smoking and alcoholism. This is one reason why the government controls alcohol and cigarettes.

4.

Position	Advantages	Disadvantages
Northern Alberta	<ul style="list-style-type: none">• This job is in Alberta, where Andy wants to stay.• It is closer to Cindy.	<ul style="list-style-type: none">• very little money• would have to get another job in the community
Saudi Arabia	<ul style="list-style-type: none">• excellent salary• will develop teaching skills• chance to see another culture	<ul style="list-style-type: none">• far from home• does not want to make his permanent home here• far away from Cindy

Section 2: Activity 3

1. a. Alicia will need to know whether the market includes business people—who have scheduled coffee breaks and lunch hours each day—or tradespeople with less flexibility in their day. Is the area busy on Saturdays, or is it mainly a weekday clientele? She will also need to know if the area is an upper-class, middle-class, or lower-class part of town.
- b. The cost of her supplies will increase, and Alicia may have to diversify to be successful. She may have to offer sandwiches, cold drinks, and desserts to subsidize the coffee sales.
- c. There is currently an emphasis on the amount of fat in foods, and restaurants are offering low-fat menu selections. Alicia would be advised to offer decaffeinated coffee, as well as low-fat milk and sugar substitutes.
- d. You may have listed some of the following economic factors:
 - If this is a popular idea, there may be increased competition in the area Alicia has selected, perhaps from established coffee houses with more resources and expertise.
 - Alicia may have to borrow money to begin her business, and if the bank interest rates increase suddenly, she may be asked to either repay her loans or borrow at a higher rate of interest.
 - Alicia may be looking at an unstable source of coffee beans, which relates to international market conditions. This could affect her business drastically.
 - Coffee houses may be a fad, and thus may not have a long life. Alicia may have to change her business plan to accommodate dinners or breakfasts.
2. Eva may consider borrowing from friends or family, or she may consider taking in a partner who has expertise in the business area. A less practical decision would be to borrow from a finance company, where the interest rate would be too high. The least practical decision would be just to begin the business, and hope that she can earn enough capital from the first few business ventures to keep the business afloat. This is very risky, as her business reputation is now on the line.
3. a. Leona will fail if she tries to meet production deadlines by herself. She will produce only 800 of the required 950 units. Realizing this, she must hire an extra employee.

- b. If this extra employee works five days, then production could be 1600 units by Day 8. Leona could then leave for her sales meetings in Banff and Jasper on Days 9 and 10. This would mean trusting her new employee to package and ship the finished units by Day 11.
- c. If Leona hires a sales representative and stays at the company to continue producing units herself, the total number of units will be 1000—barely enough to cover the first set of orders which must be shipped by Day 11.

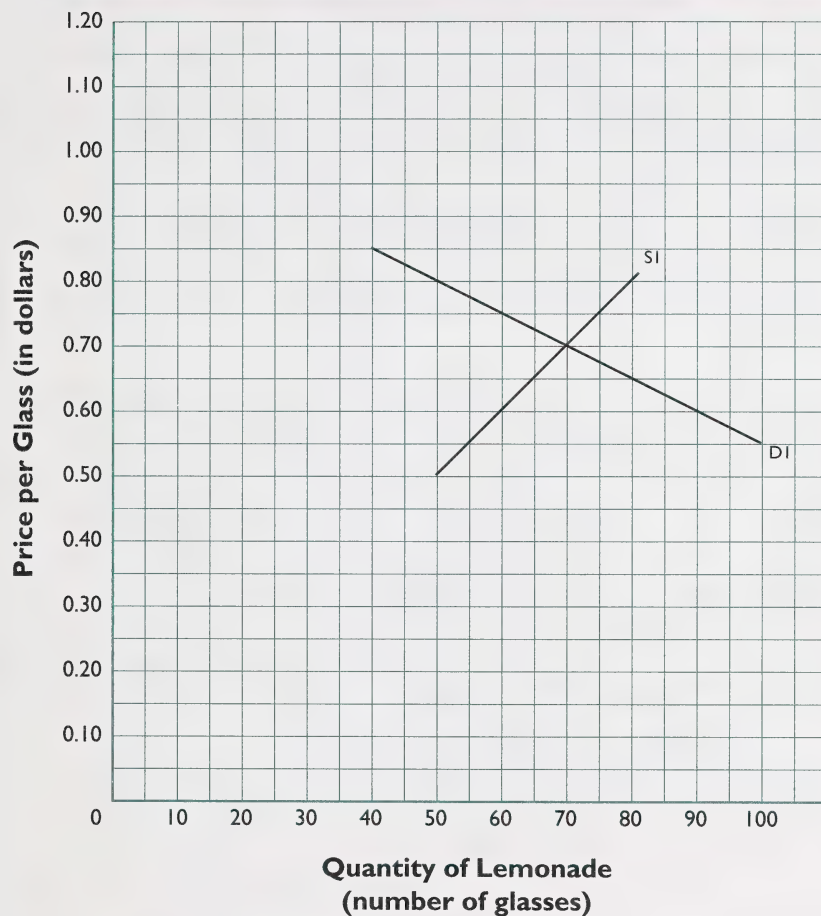
In conclusion, Leona should be thinking about staying at home and monitoring the work of her newly hired employee. After all, she will not get repeat sales if the product is below standard. She should leave the marketing and sales to those who are experts in that area.

Section 2: Follow-up Activities

Extra Help

- 1. Carlos and Anita are involved in the capitalistic social system.
- 2. They are involved in the private sector.
- 3. Yes, there are factors of competition in the location the children have selected. The Quik-Mart store is directly across the street, another lemonade stand might arise, or the ball teams may bring their own refreshments to the games.
- 4. The factors that will determine the price of the lemonade include the demand for the lemonade. Demand will depend on such factors as the weather, the time of day, the number of potential customers, the quality of the lemonade, and the competition.
- 5. Plot the supply and demand curve on the graph that follows.

A SUPPLY AND DEMAND SCHEDULE OF LEMONADE



Enrichment

- Some of the reasons that Sandra and Mark's business might fail include the following:
 - financial mismanagement: They have decided on a planting charge of \$5 without any financial basis for this decision. What if it costs more to plant a tree than this?
 - insufficient profit margin: What is the profit margin on the tree planting?
 - overestimating sales: This is where they are strong. They are planning to keep their current jobs until their own business builds up.

- poor employer-employee relations: Hiring family is always difficult. This may lead to poor employer-employee relations.
 - poor time management: They are both working at the greenhouse, which has its busy time at the same time as their new business. They would be better off to have winter jobs that end in the summer (like snow removal or outdoor recreation).
2. In addition to landscaping, there is fence building, rock gardens, underground sprinkler systems, patios, and decks. They would require extensive equipment for many of these ventures. A reliable truck would be practical in all areas of business.
 3. They should be contacting the local chamber of commerce or economic advisory board if there is one in their area. They can also look in the Yellow Pages, in newspapers, and on display board in malls and stores to see what other landscaping businesses are in the same area. They can then discover what the going rate for landscaping services is and maintain their competitive prices.

Section 3: Activity I

1. Kyle could have approached the professionals with his business plan, and they may have either helped him with his investment needs, or steered him to a friend with their recommendations.

Method of Acquiring Capital	Advantages	Disadvantages
borrowing from a bank	<ul style="list-style-type: none"> • they have extensive resources and plans for borrowing • they can customize your loan • experts at the bank can assist you in your borrowing needs 	<ul style="list-style-type: none"> • charge interest • they will require collateral for the loan, which you may not have
equity financing	<ul style="list-style-type: none"> • each contributor has a small risk, as opposed to one person losing everything 	<ul style="list-style-type: none"> • profits have to be shared • there may be more people giving their opinion and perhaps interfering
personal savings	<ul style="list-style-type: none"> • no interest charges 	<ul style="list-style-type: none"> • these savings may be needed in the future
partnership	<ul style="list-style-type: none"> • another person to share the work and make decisions • expertise from the partner 	<ul style="list-style-type: none"> • sharing of profits • unable to make independent decisions

Section 3: Activity 2

1.

FINANCIAL INSTITUTIONS		
Type of Financial Institution	Example in Alberta	Key Feature
Chartered bank	Bank of Montreal, Royal Bank of Canada	federal government license to operate
Trust company	Canada Trust	can function as a personal and corporate trustee
Credit union or caisses populaires	Edmonton Savings & Credit Union	cooperative association that provides services to its members
Consumer loan company	Household Finance	will lend money when regular banks refuse

2.

Problem	Service
John's business is open late, but his bank is already closed when he gets there to make a deposit.	<ul style="list-style-type: none">• automated teller• night deposits
Sometimes John does not have quite enough money in his account at the end of the month to meet the payroll requirements.	<ul style="list-style-type: none">• overdraft protection• line of credit
John frequently travels out of Canada on business, and hates to carry large sums of cash with him.	<ul style="list-style-type: none">• traveller's cheques• credit card
Now that he is so busy, John frequently forgets to make his monthly mortgage payment on his property.	<ul style="list-style-type: none">• direct deposit
John has many valuable papers in his office, including insurance policies. Are his documents safe?	<ul style="list-style-type: none">• safety deposit box

Section 3: Activity 3

1. Your list may include chartered banks, trust companies, finance companies and loan companies, large department stores, and some insurance companies.
2. Answers will vary. The Bay, Eaton's, Sears, and Zellers are examples of department stores that offer their own credit cards.
3. These stores want you to use the credit card rather than cash because evidence shows that individuals spend more when they are using a credit card.
4. A/D a. Sonja really likes to use her credit card because she can buy something on sale when she does not have the cash readily available.

- D b. Langston has accepted the fact that buying on credit results in interest charges on his purchases.
- S c. Felix believes that using his credit card gives him status: "People will really think I am somebody if I have a credit card."
- A d. "I need to buy a new car, but I just can't seem to save money," laments Melanie. "If I buy it on credit, I have to make the payments. In a way, it forces me to save."
- A e. Leisel remembers the time she was travelling to Vancouver and her car broke down. Using her credit card enabled Leisel to have the car repaired immediately, which was something that she could not have afforded otherwise.
- S f. Todd firmly believes in making all of his purchases with cash. He just can't understand why people seem to buy so many things they can't afford. "If you don't have the cash in the bank, then forget it!"
- A g. "Purchasing our home on credit was essential," says Daniella. "How can anyone afford to make such a large purchase using strictly cash?"
- D h. "I love the freedom that being able to buy on credit provides," says Justin, "but I just can't seem to stop myself from buying things I really don't need. I just can't help myself."

5. It is often safer to use credit than cash, and, in some cases, it is required.

6. You should have listed the following benefits:

- convenience
- emergencies
- forced savings
- large expenditures

7. People who have trouble saving money can purchase an item on credit for which they would not normally be able to save. They are forced to make the monthly payments, and are therefore able to own the item in the long run.

8. When emergencies arise, especially when travelling, the security of having a credit card is very helpful.

9. People would save up money until they could pay cash, or they would not buy the item at all. Before mortgages were available, people simply paid for items over time. They never received the title to the property until the property was paid for in full.

10. The interest costs are often "hidden" within the cost of the monthly payment, and the interest can amount to a sizable sum.

11. You might purchase items that you really do not need. You might pay more for the item than you would otherwise because you have not compared prices. You might run yourself and your family into a high-debt situation.

12. A1 a. Sonja really likes to use her credit card because she can buy something on sale when she does not have the cash readily available.

 D1 b. Langston has accepted the fact that buying on credit results in interest charges on his purchases.

- S c. Felix believes that using his credit card gives him status: "People will really think I am somebody if I have a credit card."
- A3 d. "I need to buy a new car, but I just can't seem to save money," laments Melanie. "If I buy it on credit, I have to make the payments. In a way, it forces me to save."
- A2 e. Leisel remembers the time she was travelling to Vancouver and her car broke down. Using her credit card enabled Leisel to have the car repaired immediately, which was something that she could not have afforded otherwise.
- S f. Todd firmly believes in making all of his purchase with cash. He just can't understand why people seem to buy so many things they can't afford. "If you don't have the cash in the bank, then forget it!"
- A4 g. "Purchasing our home on credit was essential," says Daniella. "How can anyone afford to make such a large purchase using strictly cash?"
- D2 h. "I love the freedom that being able to buy on credit provides," says Justin, "but I just can't seem to stop myself from buying things I really don't need. I just can't help myself."

Section 3: Activity 4

1. If someone else were to obtain these cheques, he or she could use them to withdraw cash from your account.
2. A cheque provides you with a written record of the transaction. Cash does not, unless you receive a receipt.
3. The payee is the person or business to whom the cheque is made payable. The drawee is the financial institution (bank) on which the cheque is drawn.
4. Now that the cheques are currently dated, they could be cashed. Also, if the hockey club holds the cheques for longer than six months, they will be stale-dated, which means they will not be able to be cashed.
5. You should draw a line through the correction, write the correction above, and write your initials beside the correction.

6.

Erika Zoerb
Box 99
Sometown, Alberta
T0B 1Y2

236

Today's date 19XX

PAY TO:
THE ORDER OF Otterdahl Grocery \$ 39.57

Thirty nine 57 DOLLARS

100

THE HOME SHORES BANK
SOMETOWN, ALBERTA
T0A 2Z3

Erika Zoerb

||...: 12345 | ...678999: 999. ||00099||.

Erika Zoerb
Box 99
Sometown, Alberta
T0B 1Y2

237

PAY TO
THE ORDER OF

Henrik Van Oerle

Today's date 19 XX

\$ 105.68

One hundred five

68 DOLLARS
100

THE HOME SHORES BANK
SOMETOWN, ALBERTA
T0A 2Z3

Erika Zoerb

||...||: 12345 | |...678999: 999. ||00099||.

Erika Zoerb
Box 99
Sometown, Alberta
T0B 1Y2

238

PAY TO
THE ORDER OF

Image Cable Company

Today's date 19 XX

\$ 40.36

Forty

36 DOLLARS
100

THE HOME SHORES BANK
SOMETOWN, ALBERTA
T0A 2Z3

Erika Zoerb

||...||: 12345 | |...678999: 999. ||00099||.

7. a. The numbers and words do not match. The numbers state \$23.98, and the words say "twenty-three and eighty-nine." The cheque should be dated May 20, 1995.
- b. The name of the payee is incorrect. It states AMCE Management Service. It should read ACME.

8.

Bank Statement Balance	327.00	Cheque Book Balance	386.50
Plus: outstanding deposits	85.00	Less: Service charges	21.50
		18.00	
	412.00	3.50	
Less: outstanding cheques	47.00		
32.00			
15.00			
Corrected Bank Balance	365.00	Corrected Cheque Book Balance	365.00

Section 3: Activity 5

1.

Activity	Possible Ways to Reduce Seriousness of an Accident
driving a car	wear a seatbelt, drive slower
water-skiing	wear a lifejacket and have a spotter in the boat
doing a science experiment in school	read the instructions, wear safety goggles, and make sure the teacher is nearby
playing hockey	wear proper equipment, play safely, avoid fights
walking in the woods	wear brightly coloured clothes and proper footwear, travel with a friend, and keep track of where you are

2. Answers will vary. You may have listed the following three reasons:

- The student is an inexperienced driver.
- The driving record of young people is worse than for 45-year olds.
- The vehicle the student is driving might be more expensive

3. The employer would be liable, as Gillian was working at the restaurant when the accident occurred. Insurance will probably cover this accident.

Section 3: Follow-up Activities

Extra Help

- | | |
|---------------------|---|
| 1. a. capital | <u> d. </u> a financial institution that has a federal government license to operate |
| b. equity financing | <u> i. </u> a cheque that is more than six months old |
| c. collateral | <u> a. </u> includes the original investment by the owner, as well as the machinery, tools, buildings, and other items used in the production of goods and services |
| d. chartered bank | <u> b. </u> borrowing from an individual in exchange for an interest in the business |
| e. credit union | <u> c. </u> an asset that is used as security for a loan. If the loan is not repaid, the lender takes the asset. |
| f. credit rating | <u> j. </u> the cost of purchasing insurance |

- | | | |
|-----------------------|-----------|--|
| g. assets | <u>e.</u> | a cooperative association that provides banking services to its members |
| h. mortgage | <u>f.</u> | a personal financial profile that determines your credit worth |
| i. stale-dated cheque | <u>g.</u> | anything of value owned by a company. Assets can include furniture, vehicles, equipment, buildings, and accounts receivable. |
| j. premium | <u>k.</u> | the legal contract between the customer and the insurance company |
| k. policy | <u>h.</u> | a loan given for the purchase of buildings or property with the property used as security for the loan |

2. The following three errors were made:

- The numbers and the words do not agree on the cheque.
- The name of the payee—Quick-Mart—is spelled incorrectly.
- There should be lines before and after the dollars line to prevent alternation of the amounts.

Enrichment

1. It is against bank policy to loan your card or give out your personal identification number to anyone. Although Suzanne may trust her son, she has no way of knowing what her son's friend might do with this information. And since Suzanne's son is a minor, any action he takes would become Suzanne's responsibility. Also, someone might watch the boys at the store and write down the number or steal the money.
2. The risks that the passengers took included driving home after attending an all-night party. Six people in the front cab of a truck with only two bucket seats were too many—there were not enough seatbelts for everyone. Also, the driver may have been speeding or not paying attention to the road.

Section 4: Activity I

1. Answers will vary. You may have mentioned any of the following factors:
 - Are the owners accredited (e.g., first aid, qualifications, education)?
 - Is the house large enough to hold the children?
 - Are there any objections from the neighbours?
 - Does the home meet health standards?
2. Cemeteries are permanent structures, and it is very difficult to move a cemetery after it has been located. It is also important to make sure that the bodies are disposed of in a hygienic and humane manner.
3. The government wants some control over what businesses are opened in the community and how they operate. For example, a company that wants to open a liquor store next to a school might encounter objections from the community. The business must meet community standards.
4. The fund will run out of money. The balance in the account has begun to drop, and if nothing else changes, predictions are that the pension plan will be out of funds in 20 years.

5. The plans, which were introduced by the federal government, require compulsory contributions to make them work. If only a few people paid into these funds, there would not be enough in the fund to assist anyone.

Section 4: Activity 2

1. Each new business means more people are paying income tax, which is beneficial to the government. When the economy improves, the government revenues increase.

2.

WHO CAN HELP?	
Business	Program That Might Assist
Harold is in a wheelchair and would like to start a new business in computer graphics.	<ul style="list-style-type: none"> • Vocational Rehabilitation of Disabled Persons • Joint Research Venture Program • Alberta Technology Commercialization Program • Alberta Opportunity Company
Sandra wants to develop a new bread mixture for people with allergies.	<ul style="list-style-type: none"> • Alberta Opportunity Company • Alberta Agricultural Research Institute • Alberta Agriculture • Market Feasibility Studies
Carlos has invented a system to extract oil from the oil sands.	<ul style="list-style-type: none"> • Alberta Oil Sands Technology Research Authority • Inventor's Grant Assistance Program • Joint Research Venture Program
Henrietta would like to check out the market for her new product.	<ul style="list-style-type: none"> • Market Feasibility Studies
Georgia would like to expand her market overseas.	<ul style="list-style-type: none"> • Market Development Assistance Program
Frankie has a new computer program that he would like to market.	<ul style="list-style-type: none"> • Market Feasibility Studies • Alberta Technology Commercialization Program

Section 4: Follow-up Activities

Extra Help

Who will be doing the work on Arlo's car? Is the mechanic a licensed mechanic, who really knows what he or she is doing? What if Arlo is not happy with the work after a couple of weeks? Will the business still be there?

Enrichment

1. Answers will vary. Your report should cover the items noted in the instructions.
2. Answers will vary. Your report should cover the items noted in the instructions.

Project Information	
Project Name	Project Alpha
Project Manager	John Doe
Project Status	In Progress
Project Start Date	2023-01-01
Project End Date	2023-12-31
Project Budget	\$1,000,000
Project Location	New York, NY
Project Description	A detailed description of the project, including its goals, objectives, and scope.
Project Risks	A list of potential risks and their mitigation strategies.
Project Deliverables	A list of the project's deliverables and their due dates.
Project Stakeholders	A list of the project's stakeholders and their roles.
Project Communication	A list of the project's communication channels and frequency.
Project Reporting	A list of the project's reporting requirements and frequency.

This document provides a comprehensive overview of the project, including its goals, objectives, and scope. It also details the project's risks, deliverables, stakeholders, communication channels, and reporting requirements. The project is currently in progress and is expected to be completed by the end of the year.

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